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**Series:** Speech File Backup Files  
**Subseries:** Chron Files, 1989-1993

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**OA/ID Number:** 13727  
**Folder ID Number:** 13727-001

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**Folder Title:**  
Budget 1990 9/1/90 [OA 8315] [1]

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<b>G</b>	<b>26</b>	<b>20</b>	<b>7</b>	<b>1</b>

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*Enrolled Bill H.R. 5257- Dept of Labor, HHS, Ed. &  
related agencies appropriations act 1991*

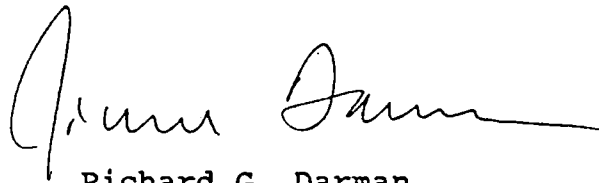
The Administration threatened veto of this bill over Senate language that would have included \$1.2 billion for a new child care grant program based on S.5, the "Act for Better Child Care Services of 1990." The enrolled bill provides \$732 million for a compromise child care block grant program. An agreement was reached between the Administration and the bipartisan Senate leadership to support appropriations for child care provided that: (1) the compromise authorization proposal would pass both Houses of Congress without change, and (2) the proposal would be funded within the Budget Summit Agreement totals. The authorization proposal, with only minor changes, is included in the reconciliation bill, and the funding level in this enrolled bill is consistent with the agreement.

Unlike the Senate version of the bill, which contained unacceptable language regarding the use of Federal funds for abortions, the enrolled bill would permit the use of Federal funds only in those cases where the life of the mother would be endangered if the fetus were carried to term. The Conferees agreed to the acceptable language (an extension of current law) in response to a senior advisers' veto threat.

The enrolled bill includes nearly \$2.0 billion for the Head Start program, \$0.4 billion over the FY 1990 enacted level and \$0.1 billion over your request. This increase over the FY 1990 level will allow the Head Start program to serve approximately 145,000 additional children, for a total of approximately 693,000 low-income children in FY 1991.

Recommendation

I recommend that you sign the enrolled bill.



Richard G. Darman  
Director

*Enrolled Bill H. R. 5021- Dept of Comm., Justice  
and State and the Judiciary, and related  
agencies appropriations Oct. 1991*

The bill contains several important provisions:

- The Department of Commerce is funded at \$2,698 million, \$183 million more than the request. Included is funding to continue the modernization of the National Weather Service.
- Adequate funds are provided to fight the war on drugs, violent crime, and white-collar crime. The Drug Enforcement Administration is funded at \$694 million, \$146 million more than the FY 1990 enacted level. Funds are provided to expand Federal prisons to accommodate an additional 6,000 inmates and to allow the Immigration and Naturalization Service to hire an additional 174 border patrol agents. Funding has been increased for savings and loan investigations and prosecutions.
- The Department of State is funded at \$3,074 million in budget authority, \$214 million more than the FY 1990 enacted level, but \$913 million less than the request. Full funding for FY 1991 assessments for international organizations is provided, but only about 20 percent of the request for arrearage payments to these organizations. Moreover, funding is not provided for the demolition and reconstruction of the Moscow embassy building. The bill provides \$31 million of the \$33 million requested for radio and television broadcasting to Cuba.

Some objectionable provisions remain in the bill:

- Twenty-eight million dollars is provided to the Small Business Administration (SBA) for eleven grants that are outside the scope of SBA's charter. Examples include a tree planting initiative, which is more appropriately a Department of Agriculture responsibility, and an initiative to establish a program to provide managerial and technical assistance to small businesses in central Europe, more appropriately a responsibility of the Agency for International Development.
- Report language imposes on the three-member Central European Small Enterprise Development Commission an obligation inconsistent with the undivided loyalty owed by Officers of the United States. The bill requires that the members be "representatives" of private organizations, yet gives them responsibilities that constitute the exercise of significant Governmental authority, which pursuant to the laws of the United States requires that the members be appointed in

conformity with the provisions of the Appointment clause, U.S. Const. Art II, sec. 2, cl 2. Therefore, the members of the Commission are to be appointed by the President or his delegate. The Executive Branch will, after due consideration of recommendations from the organizations designated, appoint the members in accordance with the Appointment clause.

- The use of disaster loan funds for current operations of the SBA is inappropriate. The use of these funds should be limited to emergencies.
- Funding for the Economic Development Administration (EDA) is continued at \$201 million. The Administration had proposed to terminate EDA and included only \$20 million for close-out costs in the budget request.

Recommendation

I recommend that you sign the enrolled bill.



Richard G. Darman  
Director

Enrolled Bill H.R. 5835 - Omnibus Budget  
Reconciliation Act of 1990 and  
Signing Statement  
STATEMENT BY THE PRESIDENT

Today I am signing H.R. 5835, the "Omnibus Budget Reconciliation Act of 1990," the centerpiece of the largest deficit reduction package in history and an important measure for ensuring America's long-term economic growth. This bill is the result of long, hard work by the Administration and Congress. No one got everything he or she wanted, but the end product is a compromise that merits enactment.

H.R. 5835, and the discretionary spending caps associated with it, will achieve nearly \$500 billion -- almost half a trillion dollars -- in deficit reduction over the next five years. Over 70% of that deficit-reduction derives from outlay reductions; less than 30% from revenue increases. In addition, the bill enacts significant budget process reforms to ensure that the agreement is fulfilled, and that budgetary discipline is extended and strengthened.

Entitlement Reforms. The bill provides for the most comprehensive and substantial reform of mandatory "entitlement" programs ever -- about \$100 billion in savings from restructuring and reforms in the following major programs:

- o Farm programs;
- o Federal housing programs;
- o Student loan programs;
- o Veterans programs;
- o Postal subsidies;
- o Federal employee benefits; and
- o Medicare.

Discretionary Program Caps. The bill establishes five-year caps on overall discretionary spending that will result in savings of over \$180 billion. To keep domestic and international spending from growing any faster than inflation, the bill creates new automatic "mini-sequesters". The bill also provides for an orderly defense reduction without threatening national security.

Energy Security. The bill provides incentives for energy conservation, and for exploration and development of domestic energy resources.

Social Security. Social security is fully protected and taken off-budget.

Enforcement and Process Reform. The bill contains the toughest enforcement system ever. The Gramm-Rudman-Hollings sequester process is extended and strengthened with caps, mini-sequesters, and a new "pay-as-you-go" system.

Credit Reform. The bill implements a new Federal accounting and budgeting system to expose and limit previously hidden (and rapidly growing) liabilities.

Tax Changes. The bill includes a tax rate cut from 33% to 31% for about 3.5 million middle and upper-middle income taxpayers and an overall decrease in taxes paid by those with incomes under \$20,000. There are higher excise taxes on luxury items and limitations on itemized deductions and the personal exemption for higher income taxpayers. The total net tax changes comprise 28% of the deficit reduction package.

This bill creates the conditions that should allow future interest rates to be lower than they would be otherwise. Lower interest rates can benefit the entire economy. They can mean more housing starts; more Americans driving new cars; reductions in mortgage payments for homeowners; more long-term investment; greater productivity; and increased numbers of jobs.

In signing this landmark Act, I pledge the continuing best efforts of my Administration to maintain not only the letter, but the spirit of the new fiscal order for the Federal Government that is embodied in this agreement.

H.R. 5835 also contains child care provisions, strongly supported by this Administration, that will enlarge the opportunities of parents to obtain the child care they desire, including care that is provided by sectarian institutions if the parents so choose. The largest portion of this new child care program will come from tax credits to people -- as requested by the Administration. In addition, a Child Care and Development Block Grant program includes provisions for the issuance of child care certificates or vouchers that would enable parents to exercise their own judgment as to what type of child care best suits the particular needs of their own child.

I note my understanding of these child care provisions and sign the bill based on that understanding, as follows:

First, I understand that the definition of child care certificates in section 658P(2) ensures that states may not restrict parental choice by limiting the range of providers from whom parents may seek child care, using certificates as payment, and that such certificates shall not be considered to be grants or contracts.

Second, section 658N(a)(1)(B) specifically permits sectarian organizations that are child care providers to require that all of their employees adhere to the religious tenets and teachings of the organization and comply with rules forbidding the use of drugs or alcohol. As I understand it, the term "sectarian organization" in this provision includes religious organizations generally.

Third, as used in sections 658N(a)(2)(B) and 658N(a)(3)(B), the term "organization" means not only the particular provider, but also a broader association with which that provider may be identified.

Finally, all of the provisions of the Child Care and Development Block Grant program will be interpreted in light of the requirements of the establishment and free exercise clauses of the First Amendment.

I would also note certain constitutional difficulties in other titles of the Omnibus Budget Reconciliation Act. In particular, section 4117 of the bill requires the Secretary of Health and Human Services, in certain conditions, to treat the States of Nebraska and Oklahoma as single fee schedule areas for purposes of determining the adjusted historical payment basis and the fee schedule amount for physicians' services furnished on or after January 1, 1992. Such treatment is made to depend on the Secretary's receiving written expressions of support for treatment of the State as a single fee schedule area from each member of the congressional delegation from the State and from organizations representing urban and rural physicians in the State. This provision requires the Secretary to base a substantive decision on the allocation of federal benefits on the statements of members of Congressional delegations and other persons who are not appointed by the President. Therefore, it must be understood either (1) as an attempt to vest significant authority to execute federal law in those persons, in which case it violates the Appointments Clause, Article II, section 2; see Buckley v. Valeo, 424 U.S. 1 (1975); or (2) as an attempt to confer lawmaking power on individual members of Congress and others, in which case it violates Article I, section 7; see INS v. Chadha, 462 U.S. 919 (1983). Accordingly, this requirement is without legal force, and I am so instructing the Secretary of HHS. I am also instructing the Attorney General and the Secretary of HHS to prepare remedial legislation to amend this section for submission to the next session of Congress, so that the Act can be brought into compliance with the Constitution's requirements.

Further, the Constitution empowers the President to "recommend to [Congress] such Measures as he shall judge necessary and expedient." U.S. Const. Art. II, § 3. Several sections of the bill raise constitutional difficulties by appearing or purporting to impose requirements that the Executive Branch submit legislative proposals of a predetermined kind. The Executive Branch has consistently treated provisions of this type as advisory rather than as mandatory, and to avoid a constitutional question will so construe the provisions at issue here.

# WHITE HOUSE STAFFING MEMORANDUM

DATE: 10/3/90 ACTION/CONCURRENCE/COMMENT DUE BY: \_\_\_\_\_

SUBJECT: FACT SHEET ON THE BIPARTISAN BUDGET AGREEMENT

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MCCLURE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SUNUNU	<input type="checkbox"/>	<input checked="" type="checkbox"/>	NEWMAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SCOWCROFT	<input type="checkbox"/>	<input checked="" type="checkbox"/>	PORTER	<input type="checkbox"/>	<input checked="" type="checkbox"/>
DARMAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	ROGICH	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CARD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	UNTERMAYER	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CICCONI	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<u>WINSTON</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
DEMAREST	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<u>BOSKIN</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
FITZWATER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<u>PINKERTON</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
GRAY	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<u>GREEN</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HAGIN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<u>AMEND</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HOLIDAY	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<u>DELAND</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
			<u>BROMLEY</u>		<input checked="" type="checkbox"/>

REMARKS: \_\_\_\_\_ CARNEY

The attached has been cleared for your use.

RESPONSE: \_\_\_\_\_

James W. Cicconi  
Assistant to the President  
and Deputy to the Chief of Staff  
Ext. 2702

# BACKGROUND ON THE BIPARTISAN BUDGET AGREEMENT

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- \* THE NEED FOR ACTION

## OVERVIEW

"It's time we put the interest of the United States of America first."

-- President George Bush, September 30, 1990  
Announcing the Bipartisan Budget Agreement

We must stop mortgaging the future of our children and their children. America needs a budget agreement. The public demands it. And, as President Bush said, this agreement meets the challenge of putting America first.

The five-year bipartisan budget plan will enhance America's long-term economic vitality. It will give small and medium-size business a shot in the arm, creating jobs. It will cut the projected federal deficit by half-a-trillion dollars -- the single biggest cut ever.

This will mean real and lasting spending cuts. And it will not raise individual income-tax rates. The plan will support future economic growth.

Our nation's economic problems are everyone's concern. So this agreement is, above all, fair. Everyone will have to make a sacrifice, but no one will have to bear the burden alone.

ECONOMIC CONSEQUENCES IF CONGRESS FAILS TO ADOPT  
BIPARTISAN BUDGET AGREEMENT

- o Bigger budget deficits -- soaring to \$300 billion per year.

**Interest Rates Go Up**

- o Interest rates 1-1/2 percentage point (or more) higher than if the budget agreement is passed.
  - Worsening outlook for the already weak housing and automobile sectors of the economy.
  - Major increases in mortgage payments for American families: an increase of \$110 on a typical adjustable rate mortgage.
  - A \$350 increase in the interest cost over the life of a \$10,000 car loan.
  - About \$30 billion more over the next three years in interest costs to the Federal Government -- ultimately the tax payer -- funds unavailable either for deficit reduction or worthy spending programs.

**Growth Slows: Recession Risk Rises**

- o Slower economic growth, meaning hundreds of billions less in income to American families in the coming decade.
- o Reduced entrepreneurial incentives, meaning foregone opportunities for new industries and new jobs.

## STRENGTHENING THE ECONOMY

### Interest Rates

- o The most pronounced effect is the expected reduction in interest rates as a result of the \$500 billion deficit reduction plan. By drastically reducing the Federal Government's drain on the Nation's scarce supply of private saving, the budget agreement would substantially reduce interest rates, spur investment, and create jobs.
  - Long-term interest rates have fallen by 1/3 percentage point since the middle of last week, largely because of the agreement.
  - Using conventional assumptions, long-run interest rates will decline by approximately 1-1/2 percentage points from what they would have been in the absence of an agreement.
- o Lower interest rates mean:
  - More job-creating investment in both business and housing:
    - Between 100,000-150,000 more housing starts in the year following the lower interest rates.
    - About 500,000 more auto sales in the year following the lower interest rates.
    - Increases in business equipment and structures over what they would have been without an agreement.
  - A reduction of about \$110 per month in payments on a mortgage on a typical home.
  - A savings of about \$350 of interest over the life of a \$10,000 auto loan.

### Increased Growth

- o By the end of this decade, real GNP will be 2 percent higher per year as a result of more saving and investment and lower interest costs.
- o By the end of the decade, GNP will cumulatively total more than \$1 trillion more than if interest rates did not fall.
- o A lower deficit will provide an added safeguard against inflation.

## ENCOURAGING SMALL BUSINESS AND CREATING NEW JOBS

- o A package of incentives for small businesses will substantially reduce their cost of capital and stimulate investment in new and growing enterprises.
  - Currently, about 2.3 million corporations would qualify, almost two-thirds of all U.S. corporations.
  - According to the SBA, nearly 70 percent of new jobs come from small businesses (\$50 million or less).
  - As the American Business Conference (ABC) -- the CEOs of the country's fastest growing midsize companies -- put it, "the growth initiatives in the package will spur creation of a whole new generation of ABC-like companies. These are the entrepreneurs that will be generating much of the new employment in the next decade."
- Deduction for Investment. Individuals can invest up to \$200,000 per year in small companies and receive a tax deduction for 25 percent of their investment. In effect, the company can raise each \$1 in funds at a cost to the investor of only 93 cents. The deduction is provided "going in", at the time of the stock purchase.
- Indexing. New stock purchases in these firms qualify for indexing for the next 5 years. For example, if inflation averages 4 percent and the total return over 5 years is 50 percent, indexing is equivalent to a 34 percent exclusion on the nominal gain.
- Basis Adjustment. This allows investors, particularly entrepreneurs and others who invest for at least five years, to limit their effective capital gains tax. "Zero basis" stock receives an effective 50 percent capital gains exclusion (a 14 percent effective rate for those in the 28 percent bracket.) Individuals whose investments have tripled receive a 25 percent capital gains exclusion (for a 21 percent effective rate).

- Research and Experimentation Credit. This important provision is extended through 1991. If not extended, companies with rapidly growing research programs would pay much more tax, which would discourage the research necessary to maintain American competitiveness in world markets. The agreement would increase the credit from 20 percent to 30 percent for small firms.
  - Expensing -- or first-year write-off of some investment--increases the value of the tax savings from depreciating new equipment. Additional expensing is provided for scientific equipment. This will stimulate equipment purchases by these companies.
  - Corporate Rate Change. This will effectively lower the corporate tax rate from 39 percent to 36.5 percent for many small corporations. For example, a company with taxable profits of \$300,000 will save \$5,000 in taxes from this provision. Large corporations with profits over \$570,000 will be unaffected by this provision.
- o Other growth incentives include enterprise zones, energy production incentives, and user fees for infrastructure and patent production.
- Enterprise zones would be established to create jobs and develop business in specially designed urban and rural areas in need of economic assistance. Tax incentives would be provided to encourage starting businesses and hiring workers.
  - Energy incentives would encourage exploration for oil and gas, production from marginal properties, and enhanced oil recovery. In addition, Section 29 would be extended and expanded to tight sands gas, and incentives for ethanol would be modified and extended. These provisions would not only improve our energy security, but would provide jobs, increase business, and help to constrain energy prices.

## REFORMING THE BUDGET PROCESS

### 1. Strengthens Budget Law

- o Retains and Extends the existing Gramm-Rudman-Hollings (G-R-H) sequester system. Extends GRH to 1995, with deficit reduction path intended to reach zero in 1996.
- o For the first time, establishes in law binding caps on total discretionary spending for five years.
- o Establishes binding caps on each of the categories of domestic spending, international, and defense spending, for 1991-1993.

### 2. Tough New Enforcement

- o Adds to G-R-H new procedure triggering automatic across-the-board spending cuts if appropriations bills exceed any of the caps.
- o Automatic cuts equal to the excess spending occur in 15 days if bill is enacted before July 1, and on October 1 if the bill is enacted after July 1.
- o The reduction is ordered against the spending category exceeded, to focus and target enforcement.
- o Caps could be exceeded only in the event of an emergency request by the President.

### 3. Pay-As-You-Go For All New Entitlements

- o For the first time, ensures by law that no new entitlement legislation can increase the deficit.
- o Requires all entitlement or revenue legislation to meet pay-as-you-go test: any new entitlement spending legislation must be offset by reductions in other entitlements or by revenue increases.
- o Tough enforcement if Pay-As-You-Go is violated:
  - Any entitlement legislation not meeting the pay-as-you-go test would trigger an automatic across-the-board sequester in the entitlement category.

-- Doubles the amount of entitlement spending subject to sequester

4. Reforms Congressional Budgeting Procedure

- o Requires congressional budget to cover five years.
- o Requires 60 votes in the Senate to pass spending bills that would violate caps.
- o If a revenue losing bill is reported, then automatic instructions are issued to the offending committee to provide offset. In the Senate, a 60 vote point of order is established against revenue-losing bills.

5. Forces Action on Hidden Government Liabilities

- o Completely Reforms budgeting for federal credit programs.
- o For the first time, requires the subsidy value of new credit programs to be explicitly determined up front, before laws are passed to extend government credit. No more S&L surprises.
- o For the first time, new government credit would have to be explicitly paid for up front, before laws are passed -- not left to accumulate for payment later.
- o Government sponsored enterprises (GSEs): congressional action on reforms to ensure financial soundness is required in 1991.

6. Protects Social Security

- o Removes Social Security operating surpluses from G-R-H.
- o Requires 60 votes in the Senate for passage of legislation that would violate the actuarial soundness of Social Security.

## ACHIEVING REAL SAVINGS

- o The agreement represents the biggest deficit-reduction package in American history.
- o The budget plan will cut \$120 billion in government spending on entitlement and mandatory programs -- the largest such savings ever produced. These programs have been the biggest single source of growth in government spending. This is the first time such cuts will be guaranteed in law. No more smoke and mirrors. Savings will include:
  - \$60 billion from Medicare
  - \$13 billion from Agricultural payments
  - \$4.2 billion in Postal Service reform
- o The agreement will also produce \$182 billion in discretionary program savings, including cuts in defense outlays of \$67 billion over three years.

RAISING REVENUES, BUT HOLDING THE LINE ON INCOME TAX RATES

- o Again, these cuts were made without caving in on raising individual income-tax rates. The agreement calls for raising \$134 billion in five years. And we can raise this tax-revenue with these measures:
  - A phased-in increase in the gasoline tax -- five cents a gallon the first year and another five cents the next year. This measure will produce the greatest revenues.
  - Increased taxes on alcohol and cigarettes, as well as selected luxury items.

## PROVIDING OPPORTUNITY AND EMPOWERING LOW-INCOME AMERICANS

- o Lower interest rates will help working Americans by cutting mortgage payments.
- o The plan makes an historic breakthrough by providing federal tax incentives for the development of enterprise zones -- to create jobs and opportunity for those who need it the most. Enterprise zones will foster new businesses in depressed urban and rural areas and give poor people a better chance to work toward the American dream.
- o The agreement lends a hand to the working poor through an increase in the earned-income tax credit.
- o No one below the poverty line will have to pay for a Medicare premium increase. Medicaid will pay.
- o The budget preserves programs for low-income Americans, such as:
  - Aid to Families with Dependent Children.
  - Food Stamps.
  - Medicaid.
- o Above all, the plan provides for strong economic growth. The best way to expand opportunity for lower-income Americans is to increase the number of jobs in the private sector.

#### KEEPING OUR COMMITMENTS TO SENIOR CITIZENS

- o The plan does not touch Social Security cost-of-living increases.
- o The plan does not touch military or federal retirement.
- o The plan does not increase taxes on Social Security beneficiaries.
- o By helping prevent a return of high inflation, the plan will provide a special benefit to senior citizens on fixed incomes, who suffered most during the disastrous price increases of the late 1970s.

## SAFEGUARDING NATIONAL SECURITY

- o Although the defense budget is cut by \$67 billion over three years (and more over five years), our men and women serving in the Persian Gulf region will still get **the backing they deserve** to defend themselves and accomplish their mission.
  - The budget plan provides important supplemental funds for Operation Desert Shield.
- o The agreement prevents deeper defense cuts that might have reduced America's military readiness and placed further strains on our brave men and women in uniform.

## PRESERVING GOVERNMENT SERVICES

- o Enactment of the bipartisan budget plan will prevent a **sequestration that could cut into important government services such as:**
  - Drug enforcement
  - Crime control and prison management
  - Air traffic control
  - Meat and poultry inspections
  - Inspection of blood banks

## MEDICARE PREMIUMS

	(Dollars in Billions)					
	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>	<u>Total</u>
Pre-Summit Medicare	\$116	\$130	\$145	\$161	\$179	\$730
Pre-Summit Growth Rate	11%	12%	12%	11%	11%	
Summit Savings	-\$5	-\$9	-\$12	-\$15	-\$19	-\$60
Post-Summit Medicare	\$111	\$121	\$133	\$146	\$160	\$670
Post-Summit Growth Rate		6%	9%	10%	10%	10%

### Overview

- o The \$60 billion in Summit Agreement savings is derived equally from slower growth in provider payments, and increased beneficiary payments (substituting for general taxpayer financing).
- o After the Summit Agreement, Medicare provider payments will grow at 10% per year for FY91-95 -- only slightly less than the 11.5% average annual growth rate projected without the Summit.
- o After the Summit Agreement, general taxpayer support of Medicare (70% portion of cost) increases faster than beneficiary premiums and other payments.
- o Over the FY91-95 period, the Summit Agreement's proposals result in a net out-of-pocket increase in monthly payments by the average Medicare beneficiary (premiums, co-payments, and deductibles) of \$2.55, \$5.34, \$6.69, \$7.44, and \$7.92/month respectively.

### Provider Savings (Doctors and Hospitals)

- o The Summit Agreement first-year provider savings of \$3.1 billion are comparable to those achieved in the past.
  - The 1989 reconciliation bill reduced FY90 provider payments by \$2.9 billion; total provider payments still grew by 11% over FY89-FY90.
  - The 1987 reconciliation bill reduced FY88 provider payments by \$2.1 billion; total provider payments still grew by 7% over FY87-FY88.

- o The Summit Agreement contains real savings for each of the five years -- unlike prior years, where Congress opted for one-year proposals which expired the next year.

**Beneficiaries: Low-Income Protections**

- o After the Summit Agreement, low-income Medicare beneficiaries will continue to pay nothing for Medicare coverage.
  - Medicaid will pay these individuals' premiums, co-payments, and deductibles.
  - The Summit Agreement specifically set aside additional funds (\$2 billion Federal matched by \$1.6 State) to expand the number of beneficiaries whose Medicare costs are paid entirely by Medicaid.
- o After the Summit Agreement, the remaining beneficiaries will incur slightly higher out-of-pocket costs for Medicare coverage.
  - However, compared to the original structure of the Medicare program, these beneficiaries incur much lower out-of-pocket costs

**Premiums:**

- As enacted in 1965, Medicare beneficiaries paid a premium for Part B insurance (primarily physician services) set to cover 50% of the cost of the program.
- Beginning in 1973, Congress capped premium increases so that by 1990, Part B premiums covered only 25% of the program -- with the remainder financed by general taxpayer revenues.
- The Summit Agreement's 30% premium still requires a 70% subsidy from wage-earner's taxes.

**Deductible:**

- In 1965, Medicare required beneficiaries to pay a \$50 deductible. This was increased to \$60 in 1972 and \$75 in 1982. If it had increased to keep pace with program costs, the deductible today would exceed \$800.
- The Summit Agreement's gradual buildup to a \$150 deductible still represents a significant benefit relative to the program's original structure.

LOW INCOME AND ENTITLEMENT PROGRAMS NOT  
IMPACTED BY BUDGET SUMMIT AGREEMENT

I. No Social Security Cola Delay or Adjustment .

Numerous Approaches Advocated a COLA Freeze, a Delay of a COLA Increase Below CPI

II. No Increase in Taxes on Social Security Benefits

Numerous Approaches Advocated Raising the Taxable Rate on Social Security from 50% to 85%

- Under This Package Social Security Grows From \$268B to \$335B '91-'95

III. No Medicare Impact on Low Income

- No Impact on Those Below Poverty Line: They Are Held Harmless for all Increases in Medicare Premiums, Copays and Deductibles 100%. Medicaid Will Pick-Up the New Costs

- What About Those Just Above the Poverty Line?

\$2B Provided in Package to Protect Additional Low Income Above the Poverty Line (Along With the State Share of Medicaid, \$3.6B Will Protect These Low Income Beneficiaries)

IV. No Impact on Other Low Income Programs

- Aid to Families  
with Dependent  
Children

- Food Stamps

- Medicaid

WHAT THE BIPARTISAN BUDGET AGREEMENT WON'T DO

- o It will not raise individual income tax rates.
- o It does not touch Social Security Cost of Living Increases, nor does it increase taxes on Social Security beneficiaries.
- o It does not touch federal or military retirement.
- o It does not affect Operation Desert Shield -- our men and women will still get the backing they deserve.
- o It has no impact on families participating in low income programs such as Aid to Families with Dependent Children, Medicaid, WIC, and food stamps.

## ENERGY TAX INCENTIVES

### Proposed Tax Incentives

Tax incentives to enhance energy security include:

- incentives for new oil and gas exploration
- incentives to continue production from marginal properties
- incentives for enhanced oil recovery from existing fields
- an extension of current incentives for production of non-conventional fuels (Section 29), with inclusion of tight sands gas
- extension and modification of ethanol tax credits.

Total revenue loss from the incentives will be \$0.4 billion in FY 1991 and \$4.0 billion over the 5 year period FY 91-95.

### Rationale

- o The proposed tax incentives are designed to encourage increased domestic oil, gas and ethanol production, and help reverse the decline in recent years. For example:
  - Over the last ten years exploration activity (as measured by the U.S. annual average rotary rig count) has fallen by 77 percent from a high of about 4000 in 1981 to under 1000 in 1989.
  - U.S. domestic oil production in 1989 averaged only 9.2 million barrels per day, the lowest in 25 years.
  - Because the U.S. is unable to meet its needs from domestic production oil import levels have risen. In 1989 imported oil accounted for 41 percent of our oil use. This increased to over 50 percent earlier this year.
- o Even though current prices are high, they are not stable, and could decline substantially in the coming months. Because of this uncertainty the necessary long-term investments in new domestic oil and gas production may not occur. Although there is a strong relationship between oil prices and domestic exploration activity, other factors such as government tax policy will have a significant impact on domestic oil exploration and future production levels.
- o Historically, oil prices fluctuate widely creating substantial risks for investors in exploration and drilling activities. Oil prices can fall 25 percent to 50 percent between the time an exploration project is financed and drilling actually is completed. This price volatility can make an otherwise risky and costly investment in oil

drilling completely uneconomic overnight. Tax credits can reduce these risks, providing investors an incentive to explore.

- o Enhanced Oil Recovery Techniques can recover some of the nearly two-thirds of the original oil left in place after conventional production ceases. Because the reserves are established and wells are already in place additional production can be initiated relatively quickly.
- o Credits for Marginal Production will ensure that producing wells are not prematurely abandoned. Stripper wells (marginal wells producing less than 10 barrels per day) account for about 15 percent of U.S. production. Over the past 5 years, an average of almost 18,000 wells have been abandoned each year. In addition, another 50,000 wells have been temporarily shut-in. (The average stripper well produces about 3 barrels per day, compared with an average of 2,500 b/d for a well in the Middle East.)
- o Credits for new oil and gas exploration would help to reverse the decline in U.S. proven reserves, establishing a reserve base to sustain long-term production.
- o The Section 29 non-conventional fuels tax credit will help stimulate additional production from a vast resource base of non-conventional fuels, including tight sands gas. Production of tight sands gas accounts for about 10 percent of U.S. natural gas production.
- o Extension and modification of the ethanol credits will provide both energy security as well as environmental benefits. Current U.S. ethanol production represents the equivalent of about 1 percent of U.S. gasoline demand. In addition, ethanol is an important component of the clean fuels programs contained in the pending clean air act.

LIMITS ON ITEMIZED DEDUCTIONS  
WOULD NOT AFFECT INCENTIVES FOR CHARITABLE GIVING

Under the budget agreement, taxpayers with Adjusted Gross Income (AGI) over \$100,000 would have their itemized deductions reduced by three percent of the amount their AGI exceeded \$100,000. This would increase their taxable income and the taxes paid.

-- Example A taxpayer has \$250,000 of AGI and \$50,000 of itemized deductions. The taxpayer's itemized deductions would be reduced by \$4,500: three percent of the \$150,000 by which AGI exceeded \$100,000. The taxpayer would thus be able to claim itemized deductions of \$45,500.

The incentive to contribute more to charity would be unaffected. Additional contributions to charity would still be fully deductible.

-- Example Assume our hypothetical taxpayer gave \$10,000 more to charity, raising his itemized deductions to \$60,000. The amount of disallowed deductions would remain unchanged at \$4,500. The taxpayer's allowed itemized deductions would rise by the full amount of his charitable contribution.

Very few taxpayers would lose the tax deduction for their existing charitable contributions.

## THE NEED FOR ACTION

- o Congress must act, and act soon. We need measures to boost economic growth, and solve long-term problems.
- o We can meet the challenge through bipartisan leadership and quick and decisive action.
- o No one will agree with all measures, but everyone will benefit in the long run.
- o If we do not reform entitlements to control their growth -- as this agreement provides -- America may never be able to solve its deficit problem.
- o Most of all, this is our last best chance to get the federal budget deficit under control. We owe this much to our country, and to generations of Americans to come.

Huntsville (AL) News, August 4, 1990  
Distributed Nationally by Los Angeles Times Syndicate

## Now read his lips

President Bush proposes increased taxes on beer and wine.

Ron Rich says before the next election candidates should be required to sign a "pre-liquor agreement."

It's obvious, Mr. President, that Congress is trying to impale you on your own broken promise.

Why don't you turn the heat on them?

Tell Congress it is possible to cut spending instead.

We've talked already about the billions immediately cuttable from foreign aid.

Now let's challenge Congress to slash stateside extravagance.

As is, Congress is on a \$100 billion spending spree for things we just can't afford.

— \$175 million National Endowment for the Arts is \$4 million more than last year.

— \$165 million National Endowment for Humanities is \$8 million more than last year.

— \$308 for the Smithsonian Institution is \$41 million more than last year.

— \$24 million for the Institute of Museums includes a million-dollar increase from last year.

— \$49 million for the National

**Paul  
Harvey**



Gallery of Art; up \$7 million.

— \$34 million for Historical Preservation; up \$1.4 million.

Congress is telling you that you must raise taxes while Congress is demanding entirely new budgets for:

— Manned missions to moon and Mars: \$408 million.

(Yes, Mr. President; I, too applaud our space program. Its research benefits everybody and its budget recirculates on the home front — but there are many things we'd like to do that a bankrupt nation cannot afford.)

Congress wants \$10 million to study magnetic levitation.

— \$1 billion to study global climate change.

— \$1.5 billion to modernize three airports.

— \$230 million for "a special

operating budget," whatever that means, for the already generously financed Environmental Protection Agency.

— \$4.5 billion for a broad range of government research projects.

Congress, sir, is spending with both hands!

Scott Hodge, budget expert for the respected Heritage Foundation, notes that Congress has already approved appropriation bills — \$182 billion worth — at least \$10 billion of which is pure pork fat!

Included is \$788 million for various international organizations. One is the International Sugar Organization. One is the International Office of Epizootics. Whatever that is.

And our State Department gets an additional \$1.9 billion to help them celebrate The Columbus Jubilee, the Bicentennial of the Constitution and the Marine Mammal Commission.

Respectfully, Mr. President, Congress is not trying to help you at all.

And there are already bumper stickers increasingly apparent in heartland America which say: **READ MY LIPS: NO SECOND TERM!**

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Address correction requested

# Big budget bill's fine print still not ready for reading

By Major Garrett  
THE WASHINGTON TIMES

It's been three days since the House passed the massive budget bill with \$149 billion in new taxes.

Ordinarily, the fine print of this landmark legislation would already be available to members of Congress, the press and the public.

But it's not.

It's not in the Congressional Record, which is the official government version of floor action and a regular resource for press and public. And it's not in the congressional documents ordinarily made available to lawmakers.

In fact, the Congressional Record will not have the information until Monday — although proceedings from Wednesday and Thursday's House actions will be available sooner.

The only other source, the Budget Committee report, will not be available publicly until Monday, either.

Late yesterday lawmakers began to wonder why.

"Members have sought to get copies and have been told they are not available," said Rep. Robert Walker, Pennsylvania Republican and junior member of the House GOP leadership. "It is very disturbing."

According to a spokeswoman with Minority Leader Robert Michel's office, GOP legislative staffers have been looking for the bill since Wednesday morning.

After asking the Government

Printing Office for an explanation yesterday, House Republicans received a few photocopied versions of the bill — mere hours before a House-Senate conference committee was going to begin work on it. That caused some grousing since the fine print is what conferees hash out when they attempt to reconcile the different versions.

But the bill still was not available to the press or public, as it ordinarily would be.

A GPO spokeswoman said delays were inevitable when Congress, nearing recess, churns out volumes of legislative action daily. She said other documents were being printed ahead of the budget bill.

"We set our priorities as the congressional leadership dictates," said GPO spokeswoman Carlyn Krout. "They simply ask for things as they need them."

Jeff Biggs, a spokesman for House Speaker Thomas S. Foley, Washington Democrat, said the leadership did not ask to delay publication of the budget bill.

Mr. Walker said he learned late yesterday that the GPO had received a "cut and paste" version of the bill and that printers held up publication until they were sure what certain passages were meant to say.

It took until late last night for the questions to be answered so printers could give it to lawmakers.

It did not appear the bill had been altered since Tuesday, Mr. Walker said, adding: "I'm satisfied."

MUCH OF THE POLITICAL DEBATE ON THE BUDGET HAS BEEN BASED ON INSIDE-THE-WASHINGTON D.C. - BELTWAY JARGON. THAT JARGON JUST HIDES THE BASIC ISSUES.

LET ME TRY TO SIMPLIFY IT.

- o AMERICA MUST HAVE A REAL AND SIGNIFICANT DEFICIT REDUCTION BUDGET TO GET THIS ECONOMY MOVING.
  - o THAT DEFICIT REDUCTION WILL BRING DOWN INTEREST RATES ON HOME PURCHASES, CAR LOANS, AND HELP CREATE NEW JOBS.
  - o TO GET THESE RESULTS, THE BUDGET CANNOT BE SMOKE AND MIRRORS, OR BUSINESS AS USUAL. IT MUST BE REAL, ENFORCEABLE, AND PRESERVE OUR INCENTIVES FOR GROWTH.
- 

- o AS ALWAYS, THE REAL PROBLEM HAS BEEN THE UNWILLINGNESS IN CONGRESS TO VOTE FOR HOLDING DOWN SPENDING.

LET ME MENTION ALSO, ONE THING THAT APPEALS TO ME ABOUT THE CURRENT SENATE PACKAGE IS THAT IT HOLDS THE LINE ON INCOME TAX RATES. ONE OF MY BIGGEST FEARS HAS ALWAYS BEEN THAT THE CONGRESS WILL CONTINUE TO PAY FOR ITS SPENDING HABITS BY RAISING INCOME TAXES ON EVERYBODY.

IN FACT, THE BUDGET SUMMIT HAS MOVED US IN THE RIGHT DIRECTION AND HAS BROUGHT US TO THE FINAL COUNTDOWN WEEK.

---

IN THE NEXT FIVE DAYS, CONGRESS HAS THE CHANCE -- HAS THE OBLIGATION -- TO ACT.

Since President Bush called for bi-partisan budget negotiations, the Democratic-controlled House of Representatives has passed ten appropriations bills adding up to \$211 billion: \$25.119 billion over 1990 appropriations levels -- 13.5 percent increase, and \$14.348 billion above the amount the President asked for. A chart is attached summarizing the bills and examples of some of the wasteful spending follows:

#### SUMMARY

1990 Appropriations Spending	= \$186.5 billion
1991 Bush Appropriation Request	= \$197.3 billion
1991 Congressional (House) Appropriation Action	= \$211.6 billion

- o House Action is \$25 billion (13.5 percent) above last year's level of spending.
- o House Action is \$14 billion (7.2 percent) above the amount the President asked for.

## WHAT DEFICIT CRISIS? CONGRESS CONTINUES ITS PORK-LADEN SPENDING SPREE

(Updating *Backgrounder* No.780, "While Talking About A Deficit Crisis, Congress Proposes Billions in New Spending," July 25,1990.)

**H**ow is Congress responding to George Bush's broken no-new-tax pledge? With visions of new revenues dancing in its head, Congress has gone on a spending spree that will push the federal budget and the tax burden on the American people to record highs. While many in Congress thus publicly wring their hands and gnash their teeth about what they call the deficit crisis, what they really seem to care about is only more spending. Examples: On July 18, the House of Representatives passed a \$50.34 billion Rural Development/Agriculture appropriations bill, which is \$5.18 billion or 11.46 percent higher than the 1990 amount. On July 19 the House approved a \$170.44 billion Labor/Health and Human Services appropriations bill, which increases spending by \$17.31 billion or 11.3 percent over last year's level.

With only eight of the thirteen appropriations bills passed so far, the House already has spent \$403.09 billion, or \$41 billion over 1990 levels, an increase of 11.4 percent. This is \$68 billion over 1989 levels, an increase of 20 percent.

**Table 1**  
**Appropriations Bills**  
**(\$billions for Fiscal Year)**

BILL	1989 Approps.	1990 Approps.	1991 Bush Proposal	1991 Approps.	\$ Change 90 - 91	% Change 89 - 91	% Change 90 - 91
Commerce/ Justice	14.85	11.70	11.10	10.50	-1.20	-29.30	-10.20
Energy/Water	17.83	18.43	20.20	20.77	+2.40	+16.52	+12.70
Foreign Operations	14.29	15.52	15.52	15.78	+0.30	+10.46	+1.69
VA/HUD	59.39	71.28	78.78	83.57	+12.30	+40.72	+17.25
Transportation	25.67	28.17	26.73	30.94	+2.70	+20.54	+9.50
Treasury/P.O.	16.02	18.45	20.71	20.72	+2.27	+29.34	+12.30
Labor/HHS	140.37	153.13	166.23	170.44	+17.31	+21.42	+11.30
Agriculture	46.61	45.17	50.43	50.35	+5.18	+8.00	+11.46
<b>TOTALS</b>	<b>335.03</b>	<b>361.85</b>	<b>390.00</b>	<b>403.09</b>	<b>+41.24</b>	<b>+20.00</b>	<b>+11.40</b>

If the House continues at this record pace in the remaining five appropriations bills and if both the Senate and President approve, spending will rise by nearly \$75 billion over similar fiscal year 1990 levels. This dramatic increase is of particular concern because the 13 appropriations bills represent only about 60 percent of all federal spending. When combined with the automatic increases in entitlement programs and interest on the national debt, which comprise the remaining 40 percent of the budget, fiscal 1991 spending could top last year's levels by nearly \$110.

George Bush is partly to blame for this spending spree. He ignited it by bowing to pressure from Budget Director Richard Darman and Treasury Secretary Nicholas Brady to agree to a budget summit with Congressional leaders in which all issues, including taxes, were on the table. And taking the cue from Darman and Brady again, Bush threw open the floodgates on June 26 when he announced that it was clear to him that "tax revenue increases" would be needed to bring the deficit in line. Smelling blood in the water, the liberal-dominated House of Representatives went on a feeding frenzy. It rejected proposals by some House members to reduce the rate of spending increases on the Agriculture appropriations bill and the Labor/HHS appropriations bill. It defeated eleven such amendments by wide margins. Six amendments that would have slowed spending across the board were offered by Republican representatives William Dannemeyer, from California, and Bill Frenzel, from Minnesota, in addition to Timothy Penny, the Minnesota Democrat. The House even rejected the symbolic amendment by Robert S. Walker, the Pennsylvania Republican; it would have trimmed the overall level of spending in the Agriculture bill by just \$19.90 — a piddling 0.0000000002 percent.

**Table 2**  
(\$ billions for Fiscal Year)

Bill	1990 Approps.	Penny <sup>1</sup> (9.5%)	Frenzel <sup>2</sup>	Dannemeyer <sup>3</sup>	Penny <sup>4</sup> (2%)	1991 Approps.
Agriculture	45.17	46.01	46.65	47.95	49.39	50.35
Labor/HHS	153.13	N/A	163.74	N/A	169.90	170.44

1. There were two amendments offered by Representative Penny to the Agriculture Bill. The first was an across-the-board 9.5 percent cut on the proposed 1991 appropriations, which was actually an amendment to Frenzel's 7.7 percent cut. This amendment contained an exemption to the cut, the Women and Infant Children program, which was not cut at all.

2. The Frenzel amendments were an across-the-board 7.7 percent cut on the Agriculture bill, and an across-the-board 15.2 percent cut on proposed HHS spending bill. This cut on the HHS bill amounts to only a little over 3 percent of the total bill when the unauthorized funds are added in.

3. The Dannemeyer amendment to the Agriculture bill was an across-the-board cut of 5 percent, but again, this percentage only would have an effect on discretionary spending. The percentage of the total bill was much less.

4. The second Penny amendment to the Agriculture bill was an across-the-board 2 percent cut. The Penny amendment to the HHS bill was also a 2 percent across-the-board cut, but it excluded certain programs such as Chapter 1 Compensatory Education, Education for the Handicapped, and Higher Education.

Other amendments were offered to prevent spending increasing above fiscal 1990 levels on specific programs. Walker proposed four amendments to test the House's resolve for holding the line on spending increases. The first amendment would have prevented a \$65,000 increase for the \$4,935,000 Law School Clinical Experience program; the second would have prevented \$10,000,000 from being spent on a new "Education Summit Follow-Up" study; the third would have prevented a \$65,000 increase in the \$3,806,000 Physician Payment Review Commission; and the fourth would

FY 1990 ENACTED AND FY 1991 BUSH BUDGET  
(BUDGET AUTHORITY AND OUTLAYS IN BILLIONS OF DOLLARS)

<u>BILL</u>	FY 1990		FY 1991		HOUSE		HOUSE FLOOR vs.		LATEST HOUSE vs.	
	<u>ENACTED</u>		<u>BUSH BUDGET</u>		<u>FLOOR</u>		<u>1990 ENACTED</u>		<u>1991 BUSH BUDGET</u>	
	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>
Commerce, Justice, & State 1/..	19.527	17.932	19.145	18.869	18.417	18.651	-1.110	0.719	-0.728	-0.218
District of Columbia.....	0.538	0.578	0.540	0.539	0.550	0.550	0.012	-0.028	0.010	0.011
Energy & Water.....	18.472	17.669	20.251	19.422	20.901	19.730	2.429	2.061	0.650	0.308
Foreign Operations.....	14.739	13.382	14.843	13.741	14.971	13.605	0.232	0.223	0.128	-0.136
Labor/HHS/Education 1/.....	44.243	48.909	45.705	52.232	50.579	53.924	6.336	5.015	4.874	1.692
Military Construction.....	8.244	8.760	9.058	8.743	8.598	8.787	0.354	0.027	-0.460	0.044
Rural Development, Agriculture.....	9.184	9.009	5.796	7.397	9.997	9.670	0.813	0.661	4.201	2.273
Transportation.....	12.612	27.876	11.377	28.324	12.599	29.665	-0.013	1.789	1.222	1.341
Treasury-Postal Service 2/.....	9.836	9.733	11.468	11.002	11.476	10.926	1.640	1.193	0.008	-0.076
Veterans Affairs, HUD, Independent Agencies.....	49.133	54.647	59.116	59.927	63.559	59.052	14.426	4.405	4.443	-0.875
<b>TOTAL.....</b>	<b>186.527</b>	<b>208.496</b>	<b>197.301</b>	<b>220.198</b>	<b>211.648</b>	<b>224.560</b>	<b>25.119</b>	<b>16.065</b>	<b>14.348</b>	<b>4.364</b>

Note: Detail may not add to totals due to rounding.

1/ Commerce/Justice/State and Labor/HHS/Education data for House floor include OMB estimates for unauthorized programs.

2/ FY 1990 enacted BA for Treasury/Postal adjusted to exclude \$1,254 million for lease-purchase projects authorized prior to FY 1990. FY 1991 Bush Budget Request outlays increased by \$344 million to reflect outlay estimates consistent with G-R-H outlay estimates.

## APPROPRIATIONS

### Energy/Water

- o The House and Senate voted to continue subsidies to power marketing administrations out west in areas which already enjoy the cheapest power in America. (Hatfield, Foley)
- o In the House, \$36 million was added to keep the Fast Flux Test Facility nuclear reactor operating in Hanford, Washington, for a purpose for which the reactor was not even designed. (Foley)
- o University of Alabama: House added \$10 million for the Biomedical Research Facility. (Bevill)
- o Mississippi State University: House added \$4.0 million for Diagnostic Instrument and Analysis Laboratory. (Whitten)
- o Riverfront Park, Charleston, West Virginia: The Corps has been directed to spend \$350,000 to build a park facility that other cities use their own funds to construct. (Byrd, Rockefeller)
- o Boudinot Harbor, Oklahoma: The Corps has been directed to spend an additional \$400,000 for dock facilities usually provided by private companies.
- o Wallisville, Texas: The corps has been directed to build, over its own objections, a \$70 million single-purpose water supply project that would sacrifice over 5,000 acres of pristine wetlands, (including over 3,000 acres of virgin cypress swamps). The purpose of this new expense is to provide heavily subsidized water to a local Texas community. Meanwhile, other American cities and towns bear this expense on their own, without Federal subsidies. (Brooks)
- o Garrison Diversion, North Dakota: The President's budget proposed terminating this uneconomic and environmentally damaging project, which would require over \$1 billion to complete. The irrigation component would benefit only about 400 farmers at an investment of \$6,000 to \$8,000 per acre to grow crops that are already heavily subsidized by the government. Hence its completion will only lead to higher government payments under the farm program. The Department of the Interior's Inspector General recently found that farmers would be unable to repay even the annual operation and maintenance expenses, which they are required by law to do. (Burdick, Conrad, Dorgan)

## Transportation

Federal Highway "Demonstrations": The House and Senate combined added \$523 million worth of special earmarkings. Among the pet projects are the following three that supposedly "demonstrate" road safety, but are simply road construction projects:

- o \$4 million for a highway project between Paintsville and Prestonburg, Kentucky. (Perkins)
- o \$2 million to improve U.S. Route 931 in Jackson County, Florida. (Grant)
- o \$20 million for four projects in Mississippi. The eventual costs for these projects will exceed \$320 million. (Whitten)

## Treasury/P.O.

The GSA Federal Buildings Fund was established to build and renovate federal buildings. Yet Congress appropriates funds for such projects as:

- o Northern Arizona University, Flagstaff: Southwest Forestry Science Complex. Senate - \$5,000,000. (DeConcini)
- o University of Georgia: Dean Rusk Center for International and Comparative Law. Senate - \$1,000,000. (Fowler)
- o Christopher Columbus Center on Marine Research and Exploration, Baltimore, Maryland: Grant for planning and design. House - \$5,000,000. (Hoyer)

## Agriculture and Rural Development

- o The bill passed by the House is \$4.2 billion over the President's request -- that's more than 72%!!
- o The House added \$250,000 for research on methods to improve the texture of sweet potatoes -- an idea proposed by an industry group. The industry group sponsor also obtained approval for research on sweet potato pox viruses by Agricultural Research Service scientists.

- o The House added \$175,000 of agriculture funds for a firm in New York to do a film on youth at risk.
- o \$500,000 for the University of Mississippi: Food Service Management Institute. (Whitten)

#### District of Columbia

- o Board of Education: \$15.1 million of Federal funding for a local school board. This is an unique, direct federal contribution for maintenance and improvement of the District's public schools. Since 1985, public school enrollment in the District has dropped by 6,376 students (pre-kindergarten through 12th grade). The District already receives \$56.0 million of its public school funding from Federal grants that are also available to other local school districts.

#### Supplemental Appropriations (For FY 1990; Passed 5/25/90)

- o In early March of 1990, President Bush sought \$800 million in emergency supplemental funds to help the world's newest democracies, Nicaragua and Panama. Nearly three months later the Democratic House and Senate perpetrated budgetary hijacking. The House and Senate waylaid the proposal and stuffed it with new spending. When they were done, the Congress added over \$1.3 billion for unrequested domestic spending.
- o By a vote of 246-160 (R 32-130; D 214-30), the House agreed to a Senate amendment to force a federal agency that is supposed to do ocean research to procure a fish farm in Arkansas. (Bumpers)
- o Congress added \$1.8 million for renovating a Great Lakes research vessel in Michigan (not in either the House- or Senate-passed bills). (Traxler)
- o The Senate added \$185 million for an FBI building in West Virginia that is not expected to be built for five years. (Byrd)
- o Congress added \$6 million for a wildlife park in Iowa (a provision that was not in either the House- or Senate-passed supplemental bills and was snuck in, in conference). (Neal Smith)
- o Congress added \$750,000 to buy a ferry vessel for American Samoa. (Inouye)

## ENTITLEMENTS/AUTHORIZATIONS

### Excellence in Education

- o In February 1989, President proposed the Educational Excellence Act, a bill to authorize seven educational improvement initiatives increasing flexibility in the system, at a cost of \$423 million for the first year.
- o Congressman Hawkins (D. Calif) sponsored H.R. 5115, adding dozens of new costly and bureaucratic categorical programs. Total cost: \$1.4 billion in budget authority for FY 1991.

### Child Care

- o The President proposed an 8-page, \$9.4 billion bill.
- o The Senate doubled the cost. \$18 billion.
- o The House tripled the cost: \$28.9 billion and included 120 pages of child care regulation.
- o Key members: Sen. Kennedy, Sen. Dodd, Rep. Downey.

### Foster Care Administrative Cost Reforms

- o Between FY 1981 and FY 1991, state claims for administrative costs have grown over 2,800 percent.
- o The Administration proposed limiting the growth to 10 percent a year, saving \$121 million in outlays.
- o Congress (Sen. Bentsen [D-Texas], Rep. Downey [D-New York] have proposed program expansion without fixing the abuses. Total cost: \$426 million in outlays for FY 1991, and \$6.4 billion over FY 1991-95.
- o In the District of Columbia, 86 percent of foster care funds goes to administrative expenses and 14 percent goes to children. In D.C., per child:
  - \$22,050 is spent on city costs.
  - \$5,000 is spent on foster care.

## Railroad Retirement Tax Diversion

- o In the last 10 years, Congress subsidized the Railroad Retirement Board to the tune of \$1.2 billion.
- o These subsidies will cost the Federal government over \$100 million in FY 91.
- o Congress extended this subsidy through FY 90. Sen. Baucus (D-Mont) who has a disproportionate number of railroad retirees in Montana, proposed legislation to extend this again this year.

## Housing

- o The President proposed \$23.7 billion for housing programs.
- o The House bill exceeds the President's FY 1991 Budget by over \$4.6 billion in Budget Authority due in part to an emphasis on new housing construction including the Title III Rental Housing Production Program and the Title IV Community Housing Partnership program.
- o The Senate bill exceeds the President's Budget by over \$4 billion in B.A. due to higher authorizations for existing programs and for the new Housing Opportunity Partnerships (HOP block grants to states and localities).

## 1990 Farm Bill

The Administration sent to Congress in February a bill which would have continued of the market-oriented farm support programs instituted by the successful 1985 farm bill. Moreover, in his FY '91 budget, the President proposed to reduce farm subsidies by \$1.5b this year. The Congress, in bills now out of both houses but not yet in conference, essentially rejected that proposal and raised subsidies above current levels.

- o Both the House and the Senate passed bills that set five year farm subsidy spending at around \$54 billion, close to \$20 billion over the amounts recommended by the President.
- o The House rejected a proposal by the Administration to eliminate government subsidies to people who earn more than \$100,000 per year. Thus, people who earn 3 times the average income for an American family of four will

keep getting income supports from the government under the farm program. Similarly, the Senate rejected a cut-off of subsidies to those very large farmers who gross more than a half million dollars a year. Either of these proposals would have saved the taxpayer on the order of \$1 billion over five years.

- o The House also rejected a proposal to tighten loopholes in the farm laws. Payments are supposed to be limited to \$50,000 per person -- but big corporate farmers re-organize to evade the limit. Some farmers made almost \$1 million each in subsidies last year. The House voted no on a Republican amendment (by Rep. Conte) to close this loophole, and in the process saved close to three-quarters of a billion dollars over five years.
- o The House and the Senate voted against any reform in sugar subsidies, which cost American consumers more than \$1.5 billion each year. The Administration had proposed a two cent per pound reduction in the sugar support price, but not even this modest adjustment was adopted. So American consumers will keep paying twice the world price to keep a handful of sugar producers wealthy.
- o The House voted "no" on an amendment to phase out honey support, even though it would have saved \$200 million between now and 1995. That's \$200 million for only a handful of beekeepers; eliminating their payments would not endanger the work of the vast majority of beekeepers.

OCTOBER 2, 1990

DEMAREST NOTES  
DISCUSSION POINTS ON BUDGET AGREEMENT

Congress and sequester cuts  
less on partial gains  
more on fiscal reform, spending cuts  
less attack on Simon  
Co-Chair

Positive Points -- President

1. Saved DoD from deep cuts
2. Strongest enforcement
3. Major and real
4. Didn't touch Social Security Colas, military or federal retirement
5. Held line on tax rates -- individual and corporate

Discussion Points -- Darman

1. Biggest deficit package ever
2. Toughest enforcement ever
3. Largest entitlement savings ever
4. Balanced and fair
5. Cannot do better
6. If this goes down, the economy goes down

Discussion Points -- Brady

1. Watched by the rest of the world
2. President has to govern an unruly Congress

Message to members:

1. Call on Republican loyalty -- we were at the table
2. No entitlement cuts physically connected
3. TEFRA has no enforcement
4. Enforcement is in the bill -- "mini-sequesters"

Meeting Participants replies:

1. "Don't like -- Don't see how we can do better -- Could have done a lot worse."
2. Sell it on macro basis
3. Remember you can't get at entitlements with a veto

Governor Sununu wisdom: "Don't let the perfect be the enemy of the good."

**"It's time we put the interest of the United States of America first."**

**-- President George Bush, September 30, 1990  
Announcing the Bipartisan Budget Agreement**

#### **FACT SHEET**

**We must stop mortgaging the future of our children and their children. America needs a budget agreement. The public demands it. And, as President Bush said, this compromise meets the challenge of putting America first.**

**The five-year bipartisan budget compromise will boost America's long-term economic vitality. It will give small and medium-size business a shot in the arm, creating jobs. It will cut the projected federal deficit by half-a-trillion dollars. This will mean real and lasting spending cuts. And it will not raise individual income-tax rates, supporting future economic growth.**

**Our nation's economic problems are everyone's concern. So this agreement is, above all, fair. Everyone will have to make a sacrifice, but no one will have to bear the burden alone.**

- o Social Security will not be touched.**
- o Although the defense budget is cut by \$67 billion over three years (and more over five years), our men and women serving in the Persian Gulf region will still get the backing they deserve to defend themselves and accomplish their mission.**
- o The agreement's new incentives for economic growth include:
  - New incentives to increase domestic exploration and development of oil and gas resources -- to free America from dependence on foreign oil.**
  - New tax incentives for the development of enterprise zones -- to create jobs and opportunity for those who need it the most.**
  - Extension of the research and development tax credit, so America can continue to lead in science and industry.**
  - And an increase in the earned-income tax credit.****

- o The agreement will give a shot in the arm to America's job-generating small and mid-size companies:
  - A thirty percent research and experimentation credit for small businesses.
  - An adjustment in the tax basis for individuals who buy stock in small businesses.
  - A tax deduction for investment in small businesses.
  - An expanded ability for small businesses to expense certain depreciable business property.
- o The budget plan will also cut \$120 billion in government spending on entitlement and mandatory programs. Unlike other such agreements in the past, this is the first time such cuts will be guaranteed in law. No more smoke and mirrors. Savings will include:
  - \$60 billion from Medicare.
  - \$13 billion from Agricultural payments.
  - \$4.2 billion in Postal-service reform.
- o The agreement will also produce \$182 billion in discretionary program savings, including cuts in defense outlays of \$67 billion over three years.
- o Again, these cuts were made without caving in on raising individual income-tax rates. The agreement calls for raising \$134 billion in five years. And we can raise this tax-revenue with these measures:
  - A phased-in increase in the gasoline tax -- five cents a gallon the first year and another five cents the next year. This one measure alone will produce the greatest revenues.
  - Increased taxes on alcohol and cigarettes, as well as selected luxury items.
- o The budget discipline of Gramm-Rudman will be extended for five years and the agreement includes substantial budget-process reform:
  - Any new entitlement programs must meet hard and fast "pay as you go" provisions. This means that Congress will have to raise funds for any future entitlement, or cut an existing program.

-- All discretionary spending by Congress is capped for the next five years. If Congress spends money it doesn't have -- a "mini-sequester" will cut it for them. These cuts will last, because for the first time these cuts have teeth.

-- Any new tax cuts have to be matched by an equal increase in revenues.

-- This package will reform past credit programs that ignored huge liabilities to the American treasury; programs like S&L deposit insurance, student loan guarantees and HUD loan programs.

- o According to the terms of the agreement, the Congress has until October 19, 1990, to pass government appropriations bills consistent with the accord.

Congress must act, and act soon. We need measures to boost economic growth, and solve long-term problems. Most of all, this is our last best chance to get the federal budget deficit under control. We can meet the challenge through bipartisan leadership and quick and decisive action. No one will agree with all measures, but everyone will benefit in the long-run. We owe this much to our country, and to generations of Americans to come.

THE WHITE HOUSE

WASHINGTON

SEPTEMBER 25, 1990

MEMORANDUM FOR DAVID DEMAREST  
THE 9:30 GROUP  
SPEECHWRITING AND RESEARCH

FROM: DEB AMEND ~~DT~~

RE: LATEST SAVINGS AND LOAN STATISTICS FROM JUSTICE

David Runkel of the Justice Department sent over their latest S & L press release as well as a recent speech on the subject by the Attorney General. These are attached for your information.



# Department of Justice

FOR IMMEDIATE RELEASE  
THURSDAY, SEPTEMBER 6, 1990

CRM  
202-514-2007  
(TDD) 202-514-1888

## SAVINGS AND LOAN PROSECUTION UPDATE

The Department of Justice today issued the following information describing activity in "major" savings and loan prosecutions from October 1, 1988 through August 29, 1990.

Informations/Indictments:	274
S&Ls Victimized:	340
Estimated S&L Losses	\$3.443 billion
Defendants Charged:	403
Defendants Convicted:	316
Defendants Acquitted:	13*
Prison Sentences:	629 years
Sentenced to prison:	176 (77%)
Awaiting sentence:	101
Sentenced w/o prison or suspended:	54
Fines Imposed:	\$3.607 million
Restitution Ordered:	\$201.119 million

NOTE: All numbers are approximate.

"Major" is defined as (a) the amount of fraud or loss was \$100,000 or more, or (b) the defendant was an officer, director, or owner (including shareholder), or (c) the schemes involved convictions of multiple borrowers in the same institution.

These numbers are based on reports from the 94 offices of the U.S. Attorneys and from the Dallas Bank Fraud Task Force. The totals of "major" savings and loan prosecutions since October 1, 1988 are higher than last month's totals because of (a) activity between August 1-29, 1990, and (b) previously unreported activity submitted by those offices during the past month.

\* One of the 13 defendants was convicted in another case.



# Department of Justice

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"WHITE COLLAR CRIME: THE NATURE OF THE THREAT"

REMARKS

BY

DICK THORNBURGH  
ATTORNEY GENERAL OF THE UNITED STATES

BEFORE THE

ANNUAL LUNCHEON MEETING OF  
THE MERCHANTS AND MANUFACTURERS ASSOCIATION

LOS ANGELES, CALIFORNIA  
WEDNESDAY, JUNE 27, 1990

Most of you, I'm sure, have seen, if only on TV, one of my favorite Jimmy Stewart movies -- It's A Wonderful Life. Jimmy Stewart plays George Bailey -- president of Bailey Building and Loan -- a reluctant banker, who always plans to leave his hometown of Bedford Falls. But every time he starts to head out of town, he has to turn around and save it again. He even gives up his honeymoon, doling out \$2000 cash in hand to stop a run on the bank. Eventually he reaches a point of despair. His Uncle Billy has mislaid \$8000, and the bank examiner is due the day before Christmas. George is only kept from throwing himself off a bridge by the arrival of his guardian angel -- Clarence. "I wish I'd never been born," George moans. So Clarence -- a pretty bright angel, long overdue for his wings -- actually shows George what Bedford Falls would've been like if he hadn't lived -- a total sinkhole called Pottersville. And we're all very glad to see George rush back home to hug Donna Reed, safe and -- thanks to a basket full of money from the townspeople -- solvent again.

I recall George's banking career to you because -- for all that Forties' romance -- George Bailey is still how we believe bankers ought to behave. Bailey Building and Loan you will recognize as an important community institution. George's job was to help his community grow, in particular, to help families buy new homes. In fact, any sequel would have had George Bailey taking part in a genuine miracle even his guardian angel couldn't have foreseen -- the postwar housing boom. Imagine -- in the last fifty years, 70 million new homes have been built, three

quarters of the existing dwellings in this country. Bankers like George Bailey -- and some of you, I'm sure, here today -- loaned \$2.2 trillion in mortgage money, secured by a national housing stock worth \$4 trillion. The S & Ls underwrote that miracle, which let so many of us live, in reality, a Wonderful Life.

But in contrast, listen to what Shirley Lampel, a widow, had to say after losing \$30,000 -- her whole life savings, which she had been deceived into thinking were insured -- when the Lincoln Savings & Loan went belly up in 1989.

"It used to be that a person puts on a mask and goes in with a gun and robs a bank," said Mrs. Lampel. "Now we go into a bank and we get mugged. When did the bank become the crook?"

When did the bank become the crook?

This is only one of the reverberating questions, raised by the nation's S & L crisis. We know that any number of financial and fiduciary failings contributed to their massive collapse, but today I want to turn your attention to the moral failing, the criminality that also stands revealed. Attorneys from our Department of Justice Fraud Squad talk about an "epidemic of fraud" among the S & L's presently in default. Twenty-five to thirty percent, conservatively, of these "thrift failures" can be laid to wrong-doing by miscreant bank officials.

Only last week, at the Department of Justice President Bush and I assembled our 93 U.S. Attorneys from around the country to a day-long conference on how to step up the pressure upon those perpetrators of what we have come to call "crime in the suites".

The challenge is a substantial one, because these white-collar criminals are different.

They come not as threatening intruders or violent assailants, but in the very good company of those we implicitly trust. There are no gun shots, no blood-stained knives, no wailing police sirens at the scene of their crimes, but white-collar criminals still leave their victims -- such as Mrs. Lampel -- emotionally traumatized as well as economically destitute. Individual financial losses from their thievery far exceed the combined "take" from the more publicized thefts of robbery, larceny, and burglary.

For society as a whole, white-collar criminals undermine our faith in major institutions of business and finance. They can cause job loss, false pricing, deterioration of standards -- and coupled with failure to inspect, to report, to account, as in the case of the S & Ls -- a malaise of public anxiety and cynicism that is the bane of good government itself.

Finally, white-collar crime loads tremendous losses on the country's economy -- most to be borne by consumers and taxpayers. Total losses from the S & L collapse are estimated by some to be as high as \$500 billion. And the direct losses are compounded by an undermining of economic growth, the actual undoing of future chances for that Wonderful Life.

Those are some of the dire results of corrupt practices that too often plagued the nineteen eighties -- as opposed to the honest business done during that decade of unprecedented economic growth. Much activity came from old-fashioned hard work and entrepreneurial ingenuity, but too much of it slipped beyond legitimate risk into White Collar Crime. Our investigations have catalogued seven different and distinct types of white-collar criminals.

In addition to the S & L predators, they include:

- \* Defense contractors who lied, bribed, and spied in committing procurement fraud.

- \* Investment bankers, brokers, and traders who engaged in insider trading.

- \* HUD contractors and consultants seeking to serve "the greedy rather than the needy."

\* Money-launderers desperately trying to cleanse the blood stains from illegal drug proceeds.

\* Price-fixers and others colluding in restraint of a free market through antitrust violations.

\* And, finally, public officials who aid and abet all of the foregoing in their illegal undertakings.

You might notice one peculiar thing, as these white-collar criminals join the line-up. They each leave a lot of paper behind. That is frequently the only way we can catch white-collar criminals -- by picking up the damning paper trail that can corral an embezzler, or expose a penny stock fraud, or unravel a bogus transaction on the falsely balanced books of an S & L.

But this is easier said than done. Having spent a dozen years myself as a corporate lawyer -- before ever trying a criminal case -- I can attest to how complicated even legitimate business transactions can be. When shifty operators start to bend such transactions into illegitimate shape -- to hide fraud, pay-offs, kickbacks, etc. -- that deliberate tangle is even harder to unravel. It takes much more than the police breaking down the doors and seizing the evidence. It requires adept craftsmen who can break open false books to discover hidden

assets. Catching a white-collar criminal still demands the kind of investigative probing Judge Samuel Seabury of New York used in his famous prosecutions of the corrupt in the 1920s. As described by his biographer,

"Seabury's technique was to perform the unspectacular job of research where it hurt: income tax returns, bank deposit slips, savings accounts of the accused's family, brokerage statements, real estate and other filed papers."

"Research where it hurts." That is exactly what we have undertaken, for example, against the S & L rip-offs -- the white-collar crime that most concerns the country today. Still searching the paper trail for patterns of fraud, bribery, and corruption in the S & L industry, we continue to winnow carefully through some 21,000 allegations, major and minor, against the troubled institutions of American banking. This search has already allowed us to identify some twenty institutions -- mostly in Texas, or here in Southern California -- that are the top-priority targets in our effort to fix criminal responsibility for the S & L crisis.

So we are embarked on a growing series of investigations to clear up the criminal side of the S & L mess. We are using an additional \$50 million voted us by Congress late last year -- to double Justice Department personnel devoted to prosecuting the S

& L crooks in 27 cities, including Los Angeles, employing the specific model of our highly successful Dallas Bank Fraud Task Force.

That Dallas Task Force has a record, to date, of 77 indictments and 52 convictions, including the entire executive suite of the notorious Vernon S & L. Three quarters of those convicted in Dallas have gone to jail, including Woody Lemons, former Vernon CEO, now serving a 30-year prison term. And earlier this month, Vernon's top man -- Don Dixon -- was indicted on 38 counts for activities surrounding illegal contributions to political candidates. He is alleged to have even bribed a Texas bank official with a Kansas hunting trip. They bagged a brace of pheasant and a bevy of Dallas Million Dollar Saloon dancers.

This is all part of the anti-white-collar-crime drive we now have underway nationwide, thanks to President Bush's budget initiative, during the early weeks of his administration. And we would be further along in this drive, were it not for Congressional delays and funding shortfalls.

Less than three weeks after George Bush's inauguration, I appeared before the Senate Banking Committee to outline the gravity of the S & L situation, and to seek that \$50 million to beef up our anti-fraud efforts during fiscal year 1990. Shortly thereafter, we requested 36.8 million additional dollars to "jump

start" our anti-white-collar-crime drive during 1989. The result? Congress turned down flat our request for the \$36.8 million, and delayed the \$50 million until late last year.

Nonetheless, our drive is up and running. Last year we secured a total of 791 convictions in major -- that is, over \$100,000 -- financial institution fraud cases. And the FBI has 530 failed financial institutions under current investigation. President Bush's admonition to pursue "the cheats, the chiselers, and the charlatans" in the S & L industry will be honored in full by his federal prosecutors within the Department of Justice.

One further observation about the S & L's. We fully understand the deep feelings about hard times in the Southwest -- the economic troubles faced during the collapse of real estate prices -- and we are happy to see that situation start to turn the corner again. But we must be clear that much of the root problem among too many of the S & Ls was not the economy. The problem, in too many cases, was outright criminality, pure and simple.

Falling oil prices, the bad real estate market, the general downturn did not form the criminal intent of the S & L rip-off architects. Like all con artists and swindlers, they fantasized pyramiding riches that would save them from the consequences of their illegal excesses. Profits from wild-cat banking would grow

so large -- even if there were violations of the law -- that they would escape judgment, be seen as pillars of finance. As such future pillars, they surely deserved the best at present -- even if they had to slip themselves the best under the table, with a share to those willing to look the other way.

And that is also why we must exercise more than due diligence against all types of White Collar Crime. In the case of the S & Ls, we must exercise an overdue diligence -- to protect the market integrity, honest enterprise, and fair profits of the greatest free economy on earth.

There are, of course, other such masters of manipulation. Some make the daily headlines or the top of the six o'clock news . . . the Michael Milkens, the Leona Helmsleys, the Jim and Tammy Faye Bakkers. But the more systematic wrong-doers with their nefariously hidden schemes have been our most important targets. To list just a few:

\* Insider traders and stock manipulators such as Ivan Boesky, Dennis Levine, Robert Freeman and Paul Bilzerian -- all sentenced to jail terms -- and Drexel, Burnham, Lambert fined a total of \$650 million for illegal trading activities.

\* Those fifteen pit traders on the Chicago exchanges,

caught defrauding their customers -- "stung" by undercover FBI agents in Operations Sour Mash and Hedgeclipper.

\* "Robin HUD," who illegally diverted \$5.6 million in mortgage settlement funds -- only one of nearly 800 present investigations into HUD Scandals -- sentenced to nearly four years in prison last week.

\* Over 7000 federal, state, and local public officials convicted of public corruption -- including twenty-two members of Congress -- prosecuted by the Department's Public Integrity Section, since I started it fourteen years ago as Assistant Attorney General in our Criminal Division.

But in all of this heightened effort to pursue white-collar criminals, one root matter sometimes gets curiously lost: why are we doing it?

There is always the wrong-headed charge that going after white-collar crime is anti-business. Clearly, it is not. In fact, I have always looked upon our actions against White-Collar Crime as pro-business -- designed to forestall actions that could well subvert our free enterprise system. We are seeking to protect the valued institutions of that system when we act against illegal insider-trading, public corruption, or corporate violations.

At the same time, we are also protecting our citizenry. We prosecute white-collar crime for the sake of all our citizens, especially those who are most hard-pressed to pay the prices that are fixed artificially high, or the taxes that go only toward further abuse of the public trust. And in the case of money laundering, most especially those whose very futures are most threatened by high-profit drug-trafficking.

The President has directed that we make this a priority because we -- that is, the Feds, the Department of Justice -- are often the only ones with the investigative manpower and prosecutorial capacity and legal scope to handle the cases. White Collar Crime can't be effectively addressed by private suit or the local constabulary when it involves sophisticated conspiracies to defraud or complicated money laundering schemes reaching across international borders.

Our responsibility to prosecute White-Collar Crime is especially awesome during a time when so many elsewhere -- in Russia, and Eastern Europe, and indeed, the world over -- are looking to the United States for institutional wisdom. How can we advise others how to move toward democracy and free-market capitalism if we do not make every effort ourselves to preserve our institutions from reckless subornation? We must bolster and secure our system and the world's most exemplary exchange -- our

free marketplace -- against any depredation by those who would subvert their integrity.

In other words, even globally, we are in this for all the right Jimmy-Stewart reasons. We believe in George Bailey's approach to the banking business. Even more, we believe in protecting the values of institutions like Bailey Building and Loan, protecting them from fraud and manipulation and looting -- that serial run of white-collar crimes -- because upon such values depends the integrity of the whole system. We are helping protect George Bailey's customers, his depositors, his mortgage-holders, so that they too can enjoy the full fruits of their labor, the honest increment of their savings, and the real prospect for a Wonderful Life.

What I've really described for you today are Seven Deadly White-Collar Crimes -- much like the seven deadly sins of old -- though these slip by in more modern guise, more dissembling of purpose. I've given you their lineup for the last decade -- the 1980s. For this decade ahead -- the 1990s -- I can assure you they will be the focus of a renewed and aggressive federal law enforcement effort to help preserve prospects for that Wonderful Life for all Americans.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

# MID-SESSION REVIEW OF THE BUDGET

NOTICE:

Embargoed: There should be  
no release of this document  
until 9:00 a.m. (E.D.T.)  
Monday, July 16, 1990

July 16, 1990

July 26 -- Both sides agree to put budget plans on the table. The Administration and Republican negotiators develop a plan to produce \$50 billion savings in the first year and \$500 billion in savings over 5 years.

-- No plan from the Democrats.

-- Administration states and restates its willingness to exchange offers.

July 31 -- When in doubt, go back on recess. Unable and unwilling to come up with their own plan, Democrats propose to delay exchange until after the August recess. Eighty six days after the President called on Democrat leaders to work out a bipartisan budget solution, they had yet to offer one single proposal.

August 1 -- Enough is enough. The President announces he will veto each and every spending bill the Democrats write that busts the budget, and tells Republicans in Congress that when it comes to dealing with the Democrats, all bets are off.

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### Here's a Few Examples of What the \$100 billion Sequester Will Mean:

*The following are just a few of the effects should a sequester order take place on October 15, 1990:*

For defense, reductions of up to one million military personnel, about half the force, if military personnel are not exempted. And if military personnel are exempted, reductions-in-force or furloughs of up to 850,000 defense civilian employees along with a severe degradation of military force readiness.

For the Federal Aviation Administration, major cutbacks in air traffic controllers, extensive closure of facilities, the curtailment or removal from service of over 100 air traffic control towers, a substantial reduction in the number of flights, and an increase in traveler delays of 400 to 600 percent.

For Superfund, a halt in all new cleanups of toxic waste sites.

For INS, no new hiring of Border Patrol staff and building of new traffic checkpoints to intercept drug and alien smugglers.

For white collar crime, a drop of about 25 percent in completed investigations and about 1,000 fewer convictions. Prosecution of those who have perpetrated S & L institutions fraud would be slowed.

For student aid, the outright elimination of Pell grants to 1.2 million students and a 22 percent reduction of all other Pell grants to 2.2 million additional students.

For meat and poultry, the absence of inspection services for about 140 days, thus forcing the shutdown of many processing plants.

PHOTO

PHOTO

## VI. POTENTIAL EFFECTS OF \$100 BILLION SEQUESTER

If the Budget Summit negotiations do not produce a satisfactory deficit reduction program, a large sequester will ensue. With that possibility in view, this section discusses the sequester calculations and the potential effects of a 1991 sequester of \$100 billion.

For purposes of determining the sequester amount, it seems reasonable to assume the continuation of the food stamp program, and a return to normal operating levels for the Census Bureau. Spending from the Resolution Trust Corporation (RTC), however, including administrative expenses and interest payments to the Federal Financing Bank, is excluded from the baseline totals at this point—in part because current law limits total RTC spending and in part because many believe that RTC expenditures should be excluded from G-R-H sequester calculations. Under these assumptions, the adjusted baseline deficit would be \$168.8 billion in 1991, \$104.8 billion above the \$64 billion deficit target required by the G-R-H law. Thus if no additional policy actions were taken to reduce this adjusted baseline deficit before the initial sequester report is issued on August 25th, the President must issue an order to withhold roughly \$100 billion effective October 1st. If no policy actions were taken before the final sequester report is issued on October 15th, a sequester of roughly \$100 billion would be required. (If RTC were authorized to spend more, and if such expenditures were included in the sequester calculation, the likely sequester would exceed \$150 billion.)

### *Sequestration Calculations*

Reductions associated with a \$100 billion sequester would be determined using the following steps, as shown in Table 11.

**Table 11. MID-SESSION REVIEW:  
SEQUESTRATION CALCULATIONS FOR 1991**

(Outlays in billions of dollars)

	Outlays
Required deficit reduction (assumed as of July 15, 1990)..	100.0
<b>Defense (military personnel sequestered):<sup>1</sup></b>	
Total required reductions .....	50.0
Estimated outlays associated with across-the-board sequesterable budgetary resources .....	198.8
Uniform reduction percentage .....	25.1%
<b>Nondefense:</b>	
Total required reductions .....	50.0
Estimated savings from automatic spending .....	0.1
Estimated savings from special rules .....	1.8
Amount remaining to be obtained from uniform percentage reductions of budgetary resources .....	48.1
Estimated outlays associated with across-the-board sequesterable budgetary resources <sup>2</sup> .....	125.3
Uniform reduction percentage .....	38.4%
<b>MEMORANDUM</b>	
<b>Defense (military personnel exempt):<sup>1</sup></b>	
Total required reductions .....	50.0
Estimated outlays associated with across-the-board sequesterable budgetary resources .....	198.8
Uniform reduction percentage .....	25.1%

<sup>1</sup> Excludes \$5.7 billion in estimated 1991 outlays for CCC.

<sup>2</sup> Excludes \$5.7 billion in estimated 1991 outlays for CCC.

First, one-half of the required deficit reduction, \$50 billion, would be assigned to defense programs (budget accounts in the national defense function, 050, excluding the Federal Emergency Management Agency) and the other half to nondefense programs.

Second, savings from eliminating automatic spending increases in three specific programs (the National Wool Act, the special milk program, and vocational rehabilitation) would be applied to the required reduction in outlays for nondefense programs. Savings from eliminating these adjustments would be \$58 million.

Third, the amount of outlay savings to be obtained by applying four special rules would be calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare and certain other health programs. The estimated savings from these special rules, \$1.8 billion for 1991, would be applied toward the required spending reductions in nondefense programs.

The reductions in defense programs and remaining reductions in nondefense programs would be taken on a uniform percentage basis, computed separately for each category. Under the adjusted baseline estimates, the uniform percentage reductions would be 38.4 percent for nondefense programs. For defense programs, the uniform percentage reduction would be 25.1 percent if military personnel accounts were sequestered and 41.3 percent if these accounts were exempted by the President from sequestration.

In the event that a sequester is required, not all programs will be subject to reductions. For defense and nondefense programs combined, about 67 percent of total outlays are associated with budgetary resources exempt from sequestration. The burden of sequester falls on programs that comprise the remaining 33 percent of budget outlays. Of these outlays, defense programs account for 47 percent, special rule nondefense programs for 25 percent, and other nondefense programs account for 28 percent.

### *Programmatic Impact of a \$100 Billion Sequester*

In addition to the sequester effects described for individual programs that follow, most, if not all, Federal agencies would be forced to reduce staff costs through reductions-in-force, furloughs, and hiring freezes.

Reductions-in-force are required to be implemented in an orderly way, generally using the criteria, within Federal job classifications, of abolishing positions, thereby terminating the employment of the most junior and non-veteran employees first. Severe reductions-in-force (of the size necessary under this sequester) also can affect senior employees whose jobs are abolished. These employees may then "bump" more junior employees in other job classifications for which the senior employee is qualified.

Furloughs involve telling employees not to come to work for a certain length of time and then not paying them for that time period (e.g., involuntary leave without pay). By law, military personnel cannot be furloughed.

Hiring freezes result in the random loss of employees and frequently the loss of the most critical specialties and the creation of imbalances within an organization.

Legal requirements, the regulations of the Office of Personnel Management, and labor-management agreements must be followed in administering both reductions-in-force and furloughs. In order to yield any savings, the reduction-in-force process should begin at the time of the initial sequester report on August 25th or not later than the issuance of the final sequester report on October 15th. Termination expenses (payments for unused annual leave, return of retirement contributions, unemployment compensation payments, etc.) offset the savings made possible by discontinuing employment. Separating a person at the beginning of the year on average saves only \$11,500 or 35-40 percent of compensation and benefits during the first year after a reduction-in-force. In subsequent years, the former employees' full compensation and benefits would normally be saved. On this basis, the separation of 100,000 employees through a reduction-in-force would save only \$1.1 billion in 1991. Many thousands

of dependents, businesses, and creditors who depend upon the income and purchasing power of Federal employees would be hurt by these actions.

Agencies also would reduce travel, training, printing, contractual services, and supply and equipment purchases. Those employees who remained would be hampered in their efforts to enforce the law, carry out agency missions mandated by law, and supply previous levels of services not only because of the reduced number of personnel, but also because of organizational disruptions created by adverse personnel actions and by the lack of non-personnel resources.

While the description of the effect of the sequester by program that follows is extensive, it is not comprehensive and is *intended for illustrative purposes only*.

## ***Department of Agriculture***

### ***Commodity Credit Corporation (CCC)***

A sequester applies to CCC cash deficiency payments and commodity loan programs by crop year. Based on projected 1991 crop year cash deficiency payments of \$7.1 billion, a sequester would require a reduction of \$2.7 billion in deficiency payment outlays in fiscal years 1991 and 1992. The value of 1991 crop loans estimated in fiscal years 1991 and 1992 is \$6.0 billion. Checks written during harvest time to farmers who place crops under loan would be reduced by about \$2.3 billion in 1991 and 1992. Reductions in CCC outlays, net of loan repayments would be \$3.9 billion during fiscal years 1991 and 1992.

To illustrate the wide-spread impact of a sequester, note that approximately 300,000 commodity loans and 9,000,000 deficiency payments are currently issued through the CCC. For 1989 crop programs, the following number of farms received cash deficiency payments for crops:

Cotton .....	100,000
Feed grains.....	1,100,000
Wheat.....	435,000
Rice .....	18,500

In addition, an estimated 175,000 dairy producers would face large assessments on their milk marketings (the assessment of 10.4 cents per hundredweight of milk markets would reduce cash receipts of dairy farmers by approximately \$150 million), and 40,000 peanut farms and 424,000 tobacco farms would be affected through loan proceeds reductions.

The average deficiency payment for the 1989 feed grain crop was \$4,363, and the average for all commodity loans was \$13,771. A sequester would reduce the average deficiency payment by \$1,658 and the average commodity loan by \$5,233.

### ***Conservation***

The 1985 Food Security Act (FSA) established the Conservation Reserve Program. People who agree to retire highly erodible land for 10 years receive an annual rental payment and financial assistance in establishing a permanent cover on the land. Under a sequester, annual rental payments due under the nearly 334,000 conservation reserve program contracts with farmers could not be paid in full.

The FSA also established several new conservation initiatives that require Soil Conservation Service (SCS) technical assistance. Under the law, SCS is responsible for defining highly erodible lands (HEL) and wetlands and for helping farmers develop and install conservation plans that producers will need if they are to continue receiving program benefits from the Department of Agriculture. While conservation planning and HEL determinations have been completed, only about 30 percent of the measures have been installed. The law requires that producers install the approved conservation systems by December 31, 1994. The "swampbuster" provisions of the FSA require that SCS also conduct wetland determinations and inventories to help farmers recognize wetlands and prevent unintentional conversions. The target date for completing the wetland determinations is

December 31, 1991 with wetland inventories being scheduled for completion by the end of 1992. In addition to these efforts, SCS must provide technical assistance for the conservation reserve program, for any necessary revisions to FSA plans, and for compliance reviews to ensure that conservation plans are properly installed.

A sequester would require that SCS emphasize meeting the provisions and deadlines mandated by FSA at the expense of other conservation operations such as the water quality initiative, soil mapping, and plant center renovation, which are authorized but not subject to statutory deadlines. Even with best efforts to meet the highest priority needs, it is unlikely that many of the FSA conservation targets could be met. Continued assistance to the nearly 3,000 conservation districts would be jeopardized and service would be reduced at most SCS field offices. Watershed planning and construction would be delayed or terminated for many projects that address high priority national problem areas such as local flood control, emergency assistance, land treatment, and water quality. Cost sharing projects would be stopped or slowed down.

#### *Cooperative State Research and Extension*

Under a sequester (that must be applied uniformly), higher priority projects could not be preserved by applying larger reductions to (or canceling) lower priority projects. Across-the-board cuts would reduce USDA's National Research Initiative (designed to use competitive research grants to enhance production efficiency, food safety, and environmental quality). One important component of this initiative is an effort to map the genomes of plants to permit scientists to explore more fully the genetics of plants. Other research that would be cut could contribute to the design of more economical production practices and to dealing with pests and disease in ways that protect the environment. A large number of special interest research grants and construction projects would also be affected.

#### *Farmers Home Administration (FmHA)*

A sequester would impair efforts to service FmHA's portfolio of almost \$59 billion in outstanding debt. This would reduce borrowers' chances of success in meeting their loan obligations and increase losses to the Government. In particular, efforts to restructure about \$5 billion in delinquent farm loans would be delayed, causing borrowers undue hardship and reducing the recovery value of these loans.

#### *Federal Crop Insurance Corporation*

A sequester would reduce the funds available for commission payments on insurance policy sales made by private insurers, causing a suspension in sales when funds run out. The reduction in the amount of insurance sold would also reduce the premiums paid to the Government.

#### *Federal Research (Including Buildings and Facilities)*

Under a sequester (that must be applied uniformly), higher priority projects could not be preserved by applying larger reductions to (or canceling) lower priority projects. Such reductions would reduce USDA's Food Safety Initiative and the collection of food safety information. This information is expressly intended for further use in setting Federal food safety policies and regulations. Other research, such as water quality research projects included in the Water Quality Initiative and federally sponsored human nutrition studies, also would be constrained.

The layoff of Federal scientists and technicians would impede the delivery of new technologies to improve agricultural competitiveness and address environmental issues. Reductions in research programs at 59 agricultural experiment stations, as well as at other colleges and universities, would impair the ability of States to continue a full range of research to address local and regional concerns. Most adversely affected would be the historically black 1890 colleges and Tuskegee University that receive nearly 100 percent of their research funding from the Federal Government.

## *Foreign Agricultural Service*

A sequester would compromise the execution of trade policy responsibilities, including those related to the Uruguay round during the most crucial stage of this multilateral trade negotiation. Reductions in our overseas presence, including attaches and counselors, would impair the collection and reporting of agricultural intelligence and the administration of export and market development programs. Some overseas cooperator offices would have to be closed and some smaller cooperator organizations would have to end participation in the program. Since agriculture is the one major "positive" in U.S. trade, these reductions would have a detrimental effect on the balance of trade.

## *Forest Service*

A sequester would severely affect the ability of the Forest Service to maintain projected targets for recreation, wildlife and fish habitat management, and timber sales. Timber sales could decline to below eight million board feet. Timber preparation work would be greatly reduced, reducing 1991 and out year sales. Receipts to the Treasury and to States and counties would decline significantly. Economic effects, particularly in the West, would be substantial.

Certain campgrounds and other recreational facilities would be closed. Services at remaining sites would be significantly curtailed. Efforts to protect and improve habitat to achieve recovery goals for endangered and threatened species would be substantially reduced.

No seasonal hiring would occur, further inhibiting quick response to fire fighting emergencies and significantly curtailing services (e.g., garbage pickup and rest room cleaning) at the recreational facilities that remain open. Road maintenance and most other field work would all but cease, resulting in the deterioration of roads and facilities and ultimately road closures for safety concerns.

## *Meat and Poultry Inspection*

The Federal Meat Inspection Act (P.L. 90-201) and the Poultry Products Inspection Act (P.L. 90-449) require carcass-by-carcass inspection by Federal inspectors in establishments slaughtering food animals. All plants engaged in further processing of meat and poultry must also be inspected by Federal inspectors. Since meat packing plants cannot operate without these Federal inspectors, the meat and poultry slaughter and processing industry would be forced to limit or curtail production by the same extent that inspectors are not available. The meat and poultry industry is one of the largest in the country. It employs over 400,000 people at 7,800 meat and poultry plants and has an annual retail value of more than \$100 billion. Many thousands more people are employed in the breeding, raising, transportation, storage, and distribution of food animals. The economic loss from any shut down due to a sequester would result in the loss of billions of dollars to the American economy. In addition to the economic disruption, the limited inspection coverage would erode the high level of safety of the nation's meat and poultry products.

A sequester would result in the absence of inspection services (and the shutting down of meat and poultry slaughter and processing plants) for about 140 days.

## *Quarantine and Inspection Activities*

A sequester would defeat recent progress by the Animal and Plant Health Inspection Service to eliminate pseudorabies, brucellosis, and the Russian wheat aphid. Emergency eradication of the Mediterranean fruit fly and grasshopper would be defeated. All 39 quarantine and inspection activities would be reduced. This would result in serious delays in import shipments of plants and animals as well as baggage inspection for international travel. Extensive delays or disruption of service could cause significant losses of plants and animals in quarantine or awaiting inspection. It would also drastically reduce the number of inspections and thus increase the risk of introducing serious animal and plant diseases and pests into the United States. Implementation of the pending regulations on animal welfare might not be possible.

The Federal Grain Inspection Service would totally eliminate contractual research including aflatoxin research outlined in the Administration's farm bill proposal. The Agricultural Cooperative

Service would not be able to conduct research studies in support of farmer cooperatives and the Office of Transportation would not be able to assist in solving transportation problems related to agriculture.

### ***Department of Commerce***

#### ***National Oceanic and Atmospheric Administration (NOAA)***

A sequester would severely impair several high priority research programs, in particular, NOAA's contribution to the interagency U.S. Global Change Research program and the Coastal Ocean Science program. Several major system procurement actions supporting the modernization of the Weather Service would be canceled or deferred including such safety programs as the NEXRAD doppler radars (that detect severe weather patterns) and the next generation of geostationary weather satellites.

It would severely reduce fisheries stock assessments and research, thereby requiring an extremely conservative fisheries management regime including closure of certain grounds to commercial fishing. Operations of the NOAA research fleet and air wing would be reduced to the minimum required to support hurricane reconnaissance responsibilities. These actions would be required to ensure that NOAA would be able to provide weather warnings and, on a less frequent basis than normal, weather forecasts.

### ***Department of Defense—Military***

*Military personnel exempted.*—The President can exempt up to 100 percent of the military personnel accounts from sequester. If he chose to do this, force readiness would be severely degraded. Because a sizeable portion of operation and maintenance expenses are relatively fixed in the short term (e.g., hospitals and other required medical costs and bases that cannot be closed according to the G-R-H law), readiness related activities (training, flying, steaming, and maintenance) could be cut by more than 50 percent. Substantial cuts in operating rates would result. For example, the flying time for Air Force pilots would be reduced to less than 10 hours per month (compared to the current 19.5 hours per month that is considered the minimum necessary for adequate readiness). Navy steaming time for the deployed fleets could be reduced to less than 25 days per quarter from the normal rate of over 50 days per quarter and many ships would rarely leave their home ports. The operating rate reductions would require substantial adjustments in naval deployments and operations, reducing the President's flexibility to deploy forces where needed, including drug interdiction missions. It would also require reductions-in-force (RIFs) or furloughs of up to 80 percent of the requested level of 1.1 million civilian employees. Contractor personnel also would be reduced significantly. Roughly \$8 billion of equipment maintenance and \$3 billion of real property maintenance would have to be deferred.

Modernization programs would be delayed and quantities planned for purchase would be cut. For example, about 115 fighter aircraft could be cut from the 276 requested, six major combatant ships could be cut from the 15 requested, and about 250 Army fighting vehicles could be cut from the 600 requested. Similar cuts would be made in all other procurement programs. Unit production costs would increase. Research and development programs would be disrupted, resulting in delays in new weapon programs, including high priority strategic systems.

*Military personnel not exempted.*—Not exempting military personnel could result in a reduction of up to 1.0 million military, about one-half of the force. A sudden force cut of this magnitude would severely weaken our ability to react to any major crisis. Morale and force readiness would be severely degraded. Force structure cuts would include up to eight Army divisions (16 requested in 1991 versus 18 in 1990), the equivalent of one Marine Corps division and air wing (3 divisions and wings requested), twelve Air Force tactical air wings (24 requested), and seven aircraft carrier battle groups (14 requested).

Force readiness would be severely degraded. Because a sizeable portion of operation and maintenance expenses are relatively fixed in the short term (e.g., hospitals and other required medical costs and bases that cannot be closed according to the G-R-H law), readiness related activities (training, flying, steaming, and maintenance) could be cut by over 30 percent. Substantial cuts in operating rates would result. For example, the flying time for Air Force pilots would be reduced to less than 14 hours per month (compared to the current 19.5 hours per month that is considered the minimum).

necessary for adequate readiness). Navy steaming time for the deployed fleets could be reduced to less than 35 days per quarter from the normal rate of over 50 days per quarter and many ships would rarely leave their home ports. The force reductions in conjunction with the operating rate reductions would require substantial adjustments in naval deployments and operations, reducing the President's flexibility to deploy forces where needed, including drug interdiction missions. It would also require RIFs and furloughs of up to one-half of civilian employees (requested level is 1.1 million). Contractor personnel also would be reduced significantly. Roughly \$6 billion of equipment maintenance and \$3 billion of real property maintenance would have to be deferred.

Modernization programs would be delayed and quantities planned for purchase would be cut. For example, about 70 fighter aircraft could be cut from the 276 requested, four major combatant ships could be cut from the 15 requested, and about 150 Army fighting vehicles could be cut from the 200 requested. Similar cuts would be made in all other procurement programs. Unit production costs would increase. Research and development programs would be disrupted, resulting in delays in new weapon programs, including high priority strategic systems.

### *Department of Defense—Civil*

#### *Army Corps of Engineers*

The effect of a sequester on the civil works program would be twofold: substantial reductions in personnel in labor-intensive activities, and contract delays and cutbacks in the construction and operation and maintenance of water resources development projects.

A sequester would require reductions-in-force (RIF) affecting some 3,300 positions. A RIF of some 950 work-years is likely for the Regulatory program and General expenses accounts. Such cuts would require delays in some, if not all, non-cost-shared preconstruction engineering and design studies; and handicap new partnership arrangements with non-Federal cost-sharing project sponsors.

A RIF of 450 staff years would be required in the Corps labor intensive Regulatory program under which the Corps administers Section 404 permits for dredge-and-fill activities in wetlands and other waters, and for section 10 permits construction and other activities in navigable waterways. These RIFs would adversely affect support for the environmental initiative to improve permit enforcement and compliance.

Construction contracts on non-cost-shared projects, including seven Inland Waterways lock and dam projects, would be delayed and in some cases terminated. Work would be postponed for previously funded, cost-shared new starts for which a local cooperative agreement had not been executed. Some continuing contracts for cost-shared construction projects would be terminated.

The Operation and maintenance program would experience reductions in service delivery and increased backlogs. Specifically, the use of seasonal labor would be minimized, the recreation season shortened, recreational and other dredging deferred, and the number of shifts employed for the operation of the locks on the Inland Waterways System constrained. Moreover, there would be insufficient funds available to retain the number of employees needed to safeguard public safety and health and to assure the integrity of project operations and work placement. Recreational facilities would be closed and maintenance for flood control and navigation projects would be cut. Revetment (repair of embankments) of the navigation channels of the Mississippi River and its tributaries would be reduced by over 60 percent. Reductions would be imposed on the supervision and inspection of work placement and the engineering and design of follow-on construction contracts. Additionally, new programmed maintenance would be deferred, including channel and harbor dredging, lock and dam repairs, and hydropower maintenance.

### *Department of Education*

#### *Pell Grants*

In the major discretionary student aid program, Pell grants, the 1991 request would provide an average award of \$1,443 to 3.4 million students. Under the Pell law, the reduction in the appropriation

is translated into award reductions in accord with a specified "linear reduction" schedule that protects awards to the poorest students. However, a sequester above 24 percent would reach the awards to the poorest Pell grant recipients (those with expected family contributions of \$200 or less).

If these students are not protected, then a sequester would eliminate grants to 1.2 million students, at an average grant of \$1,000, and reduce all remaining grants (2.2 million recipients) by \$320 each, or 22 percent of the average grant under the 1991 request.

### *Department of Energy (DOE)*

#### *Atomic Energy Defense Activities*

A sequester would require a delay in cleanup activities, deferral of operational safety improvements, a decimation of the ability of DOE to support future nuclear weapons production, and a serious detriment to our nuclear deterrent. As an illustration only, the cut would require:

- A 12-month delay in cleanup activities at contaminated sites.
- DOE would not be able to meet the terms of agreements with States for obtaining compliance with environmental requirements.
- Deferring the operating safety and environmental measures that are now being instituted for assured safe operation of the tritium production reactors.
- Deferring work on safety improvements at weapons production facilities and suspending production of new nuclear weapons.
- Placing all plutonium processing facilities on standby at the very time we are returning weapons to be reprocessed due to successful START negotiations.
- Deferring indefinitely all design and construction activities for new facilities, which include improvements for environment, safety, and health deficiencies found by the DOE Tiger Teams.
- Substantially reducing nuclear weapons testing, and cutting research and development by about 25 percent, which will severely imperil initiatives to enhance nuclear weapons safety.

To effect the savings, contractor employees at the shut-down and deferred facilities would have to be laid off. Significant numbers of personnel would have to remain, however, to ensure safety and security of facilities. The maintenance of facilities in safe and secure conditions (even with no production) could be somewhat compromised. Rehiring of employees after such a major disruption would take years.

This would, in essence, force the Defense Weapons complex to proceed expeditiously to shut down all operations, and place them in as safe a standby position as possible.

#### *Energy Conservation Grants*

A sequester would reduce the number of low-income homes weatherized through the Weatherization Assistance program from approximately 125,000 to approximately 85,000 homes. This decrease would place increased burdens on State and local governments in the colder winter months and would create a hardship for many poorer American families. The number of grants to schools and hospitals for weatherization activities would be reduced by 250. Grants to States for energy conservation planning and extension activities would also be reduced. Because a sequester must be applied uniformly, higher priority research and development projects could not be preserved by applying larger reductions to (or canceling) lower priority projects.

#### *General Science Program*

A sequester would force the cancellation or delay of facility upgrades at several sites by at least a year. Start up of the Continuous Electron Beam Accelerator Facility in Virginia as well as construction of the Relativistic Heavy Ion Collider facility at Brookhaven National Laboratory would also be delayed. Operating levels of high energy facilities (Fermilab, Stanford Linear Accelerator Center, and

the Los Alamos Meson Physics Facility) would be reduced by 50 percent or more. The impact of layoffs of highly skilled staff would take years to reverse.

It would severely reduce research productivity at all the major national laboratories (e.g., Fermilab, Brookhaven, and the Stanford Linear Accelerator Laboratory) and at one or more of the smaller accelerator and research facilities. University research programs would experience large cuts in funding.

### *Superconducting Super Collider (SSC)*

A sequester would severely affect the basic ongoing research programs as well as the construction of the Superconducting Super Collider.

Virtually all site work, research and development on detector designs, and purchase of capital equipment for detector systems would cease. Design activities would have to be scaled back significantly from 1990, causing personnel layoffs.

Implementation of the magnet industrialization plan would be impossible. The magnet contract award would be delayed at least one year. This action would increase the total cost of the magnets and significantly delay the project.

Cuts of this size would send a strong negative signal to potential international collaborators about the commitment of the United States to the project and would jeopardize their participation. The sequester would almost certainly result in no foreign contributions to SSC construction. In this event, the United States would have to assume the full costs after the Texas contribution.

### *Department of Health and Human Services*

#### *Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) Drug Abuse Programs*

Activities that address the demand side of the war on drugs—research, prevention, and treatment—would be reduced by over one-third. All new research, including medications development, would be eliminated. Prevention programs for high risk youth and pregnant women would be unable to support new grants, and the number of continuing grants could be reduced by approximately 20 percent.

The Alcohol, Drug Abuse, and Mental Health Block Grant would fall sharply, reducing the number of treatment slots far below Administration goals.

#### *Centers for Disease Control*

A sequester would cut the Preventive Health Care block grant, grants for sexually transmitted disease clinics, childhood immunization grants, research on occupational safety and health, health statistics, and HIV/AIDS grants.

A sequester would sharply reduce service to the public, including approximately 1,000,000 children who would not be vaccinated for polio, measles, mumps, rubella, haemophilus influenza b, diphtheria, tetanus, and pertussis. Other effects include: (1) decreased support for block grants could eliminate over 50 percent of States' prevention programs in tuberculosis, smoking, nutrition, and chronic diseases; (2) efforts to prevent the spread of sexually transmitted diseases would be hampered: 300,000 fewer persons would be examined for syphilis, 2,500,000 fewer persons would be tested for gonorrhea, and 1,000,000 fewer persons would be tested for chlamydia; (3) the number of births monitored for changes in the incidence of birth defects would decrease by 60,000; and (4) approximately 200 disease outbreaks would not be investigated.

#### *Food and Drug Administration (FDA)*

A sequester could (1) lengthen the drug review process, (2) suspend efforts to make experimental therapies available to patients with no therapeutic alternatives, and (3) reduce inspections of foods,

drugs, devices, and imports. The expedited review proposed for AIDS drugs would be slowed and field inspections and product-related research would be reduced. The number of new orphan drug grants awarded, laboratory equipment, and automobiles necessary for field inspections would be substantially reduced. A sequester also would eliminate proposed enhancements for seafood and generic drug inspections.

#### *HIV/AIDS*

A sequester would seriously cripple the Public Health Service's (PHS) efforts to prevent HIV transmission and conduct research into therapies and vaccines, reducing funding below 1989. Fewer promising therapies could be tested, fewer education and prevention programs could be supported, and fewer research initiatives to develop cures and therapies could be pursued. Specifically, about 400 fewer AIDS research grants could be supported, and instead of hiring the 300 additional PHS staff requested in 1991 for fighting AIDS, staff levels probably would be reduced.

#### *Maternal and Child Health Block Grant—Health Resources and Services Administration*

A sequester would reduce these block grants \$114 million below the 1986 level, and could require the States to reduce sharply perinatal health services for pregnant women and their infants. Perinatal services provided by the States and the ability of States to carry out new requirements contained in the Omnibus Budget Reconciliation Act of 1989 would be severely limited. Cutbacks in perinatal health care will have a direct effect on infant mortality and low birth weight, and will severely hamper State efforts to establish case-management and community-based services that are accessible to the most needy. The number of Special Projects of Regional and National Significance (SPRANS) could be cut by a minimum of 150 (from 445). SPRANS grants focus on improved services to high risk groups, promotion of early and continuous prenatal care, reduction in neonatal mortality, and reduced behavioral risk activities in pregnant women.

#### *Research at the National Institutes of Health (NIH) and the Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA)*

A sequester would threaten the Federal Government's substantial commitment to pursuing new scientific opportunities and searching for new cures and therapies and seriously curtail efforts to invest in the nation's future health. A sequester could reduce by over 9,000 the number of Public Health Service-supported research grants (from a total of 28,000) and cut by over 4,200 the number of scientists receiving Federal research training assistance.

#### *Social Security Administration (SSA)*

A sequester in SSA's Limitation on Administration Expense account would force SSA to postpone new hiring and training, defer most work not directly related to paying and processing benefits (such as issuance of Personal Earnings and Benefit Statements to young workers and reconciling discrepant wage records of young workers), slow down contract payments and other deferrable payments, and postpone nearly all automation system upgrades. All of these steps would affect service over time, but not immediately.

After taking these initial cost savings steps, SSA would be forced to slow down or divert staff resources from non-payment related services. For instance, SSA might be forced to focus resources on taking initial applications for social security benefits and to close portions of the 800 number telephone service for a period during the year. SSA would also cut back significantly on monitoring of the benefit rolls (such as evaluations of continuing disability and eligibility for Supplemental Security Income—SSI) which would increase overpayment of benefits that may be difficult to collect.

Even with these cost savings steps, SSA would be forced to develop priorities for claims related to the payment of benefits to those who need SSI applicants while deferring or slowing down claims by persons with other means (high income retirement applications).

Timely payment of Social Security and Supplemental Security Income benefits to some new applicants could be threatened. SSA would likely be able to continue to pay benefits to currently

entitled persons, although any post-entitlement changes, such as new addresses, would probably be deferred or significantly slowed. New applicants, however, might have to wait longer to get their first monthly checks.

In addition to reducing Federal staffing available to process work, a sequester of this size would force a significant reduction in the administrative budget available for State agencies determining disabilities for SSA. These agencies, which are budgeted to receive \$800 million in 1991, make all initial disability determinations. A reduction in their resources could slow their processing of disability decisions.

### *Social Services*

A sequester would result in: (1) a reduction of \$715 million from the budget for Head Start (this would fund the enrollment of 208,400 fewer poor four-year-old children from the planned 548,400); (2) a reduction of \$163 million from the budget in grants to support meals for the elderly (this would fund 106 million fewer meals from the planned 258,740,000); and (3) a reduction of \$1,065 million from the budget for the Social Services block grant that would require States to decide whether to make across-the-board cuts, redistribute reductions among all service areas, or eliminate certain service categories and maintain others at current funding.

### *Department of Housing and Urban Development (HUD)*

A sequester would:

- Reduce funds available for the extension of expiring housing contracts to a level that might cause some low-income families to lose their housing assistance and possibly become homeless.
- Cut the number of new subsidized households assisted from 82,000 in the budget to 45,000 after the sequester.
- Force some public housing agencies (PHA's) to discontinue their efforts to eliminate drugs in public housing, defer regular maintenance on the housing stock, increase future modernization costs, and possibly threaten the health and safety of residents.
- Delay and hamper efforts to help end homelessness. Funding would be below 1990 and far below the levels authorized in the McKinney Act. Long term solutions to aid the homeless would be prevented.
- Delay efforts to assist tenants adversely affected by prepayment of HUD subsidized mortgages.
- Eliminate proposed improvements in the oversight and monitoring of HUD funds and jeopardize recent improvements. These improvements are aimed at reducing waste, fraud, and abuse in multi-billion dollar HUD programs.
- Impair management of HUD's programs because of a lack of staff—instead of focusing on improvements in monitoring and internal control systems, HUD officials would need to manage staff furloughs to stay within constrained funding. Such furloughs would increase further the risk of waste, fraud and abuse in these multi-billion dollar programs.
- Delay the approval of housing construction projects due to insufficient staff.

### *Department of the Interior*

#### *Bureau of Indian Affairs (BIA)*

A sequester would reduce funds from the 1991 request for BIA elementary and secondary school operations by \$2,200 per Indian student. At least half (about 80) of BIA's schools would close and the school year would have to be shortened for the remaining schools.

One of BIA's two post-secondary schools would close entirely. The remaining school would have to operate with a shortened school year. All capital expenditures on facilities improvements would be deferred. Aid for post-secondary education would be unavailable for 6,100 Indian students (a 44

percent reduction from the 1991 request). Vocational education training would be denied to 1,300 Indian students.

Funding for the BIA general assistance (welfare) program would be reduced by \$20 million below the request. This would prevent the BIA from making assistance payments for almost five months during the year to an estimated 50,000 needy individual Indians.

#### *Bureau of Land Management (BLM)*

A sequester would curtail on-the-ground management of public lands, including inspection and enforcement of mining and mineral leasing operations, grazing, timber, recreation, wilderness, and wildlife programs. Reduced inspection of mineral leases would result in reduced revenues from Indian and Federal leases. A major automation initiative, the Automated Land and Mineral Records System (ALMRS) that is part of BLM's integrated Modernization effort, would be postponed, and hazardous materials management inventory and cleanup efforts would be drastically reduced on 270 million acres of public land managed by BLM in 28 States. Also, discretionary fire fighting pre-suppression activities would be cut back, possibly increasing the ultimate cost of emergency fire suppression operations.

The America the Beautiful initiatives for BLM, including Recreation 2000 and Wildlife 2000, would effectively be shut down. BLM's increased drug eradication and interdiction program could not be supported. Land acquisition, maintenance and construction projects would be cut in half. The ability to offer allowable cut timber volumes in western Oregon would be greatly reduced, thereby significantly reducing receipts and payments to Oregon and California counties.

#### *Bureau of Reclamation*

A sequester would result in no new contract awards to continue work on water projects currently under construction and no major rehabilitation or improvement work at existing projects. Further adjustments would be required, including the termination of contingent construction contracts (with payment of penalties) for existing projects. This would lead to delays in the completion of projects, the realization of project benefits, and, in some cases, the initiation of project repayment.

Routine preventive maintenance efforts at dams, pumping plants, canals, and other project features would be curtailed, as necessary, in order to continue the operation of project facilities. This might result in higher project maintenance and repair costs in future years. Operations at some existing projects might be curtailed due to a lack of funds for repairs or required maintenance to ensure safe operation of project facilities.

#### *Fish and Wildlife Service (FWS)*

A sequester would not permit nine new National Wildlife Refuges to open in 1991 as planned, 100 refuges would be placed in caretaker status, law enforcement activities associated with drug control on FWS lands would be severely curtailed, funding for FWS America the Beautiful land acquisition and resource protection initiatives would be drastically reduced, and the North American Waterfowl Management Plan (that provides the focal point for the restoration of North American waterfowl populations) would not be implemented.

Other examples would be: (1) planned acquisition of water rights to help restore the important Stillwater National Wildlife Refuge in Nevada would not be implemented; (2) FWS would not meet its planned target of restoring some 13,000 acres of high priority wetlands; (3) at least 15 national fish hatcheries would have reduced operations and curtailed production, and several hatcheries would be closed; (4) the environmental contaminants program would be adversely affected, resulting in reduced contaminant clean-up on FWS lands; and (5) substantial funding to States would be delayed for one year for the Wallop-Breaux and Pittman-Robertson fish and wildlife programs.

### *Geological Survey*

A sequester would adversely affect operation of the Global Climate Change Research program; the National Water Quality Assessment program, designed to determine the status and trends of the Nation's ground and surface waters, and which would not become operational in 1991 as planned; and the Advanced Cartographic System (ACS), an effort to develop and implement a new, state-of-the-art cartographic data collection, analysis, and presentation system.

Ongoing programs adversely affected would be geologic and mineral resources investigations, including important studies in earthquake and volcano hazards and energy resources assessments. The collection and analysis of water resources data would be lessened, possibly resulting in voids in various databases or delays in research dependent on such information.

Operation of approximately 675 water quality streamflow stations would be discontinued in the Federal Data Collection and Analysis program. Approximately 3,000 water quality streamflow gauges and as many as 180 cooperative investigations would have to be discontinued in the Federal-State Cooperative Data Collection and Analysis program. The grant to each of the 54 State Water Resources Research Institutes would be significantly reduced.

### *Historic Preservation fund*

A sequester would translate into smaller grants to State historic preservation offices and to the National Trust for Historic Preservation. Some grants might be eliminated. Fewer properties would be nominated to and placed on the National Register of Historic Preservation; efforts to ensure that State and local development planning and permitting recognize historic values would be reduced; and public visitation to National Trust properties might be curtailed. Efforts that now help to ensure that local planning and permitting recognize historic values would be eliminated.

### *Minerals Management Service*

A sequester would cause major reductions to the auditing staff and reduce the accuracy of revenue collections of royalties from minerals production on Federal lands. Revenues would be reduced due to an inability to audit royalty collections effectively. In addition, there would be a reduction in inspection staff and helicopter support needed to enforce safe and environmentally sound operations of outer continental shelf oil and gas operations. Revenues would be reduced due to the cancellation of new off-shore oil and gas leasing. Environmental studies and lease preparation activities would be curtailed, leading to further delays in off-shore leasing.

### *National Park Service (NPS)*

A sequester would severely and adversely affect NPS's ability to keep parks safe and open to the visiting public. Park operating funds would be reduced to levels available in the mid-1970's. There has been significant expansion of the park system since that time. Many of these newer and smaller units would be closed to permit the "Crown Jewels" (e.g., Yellowstone, Yosemite, and the Grand Canyon) to remain open to the public. Funding for regional repair and rehabilitation programs would be cut to focus only on emergencies. Resource protection efforts would be continued at a suitable level in some areas, while other areas would be essentially closed until greater resources became available.

Seasonal hiring would be eliminated and hundreds of park rangers and maintenance staff would be furloughed. All back country areas would be closed to hikers and campers because there would be no one to patrol the areas. Park Police efforts in urban parks, including drug law enforcement, would be substantially curtailed. Discretionary ecological research projects, such as the effects of acid rain and aircraft noise studies, would be suspended.

The America the Beautiful initiative for NPS covering land acquisition, resource protection, and recreation enhancement would be severely curtailed.

*Office of Surface Mining Reclamation and Enforcement (OSM)*

A sequester would lead to reduced inspections for surface mine land reclamation activities and oversight of State inspection activities. Reductions in State regulatory grants would endanger the primacy of State oversight programs. OSM's ability to respond to emergency reclamation needs through its emergency reclamation program would be limited. This could lead to increased risks to the health and safety of miners and communities experiencing emergency reclamation requirements.

*Payments to States by the Minerals Management Service*

A sequester would delay a portion of the payments due to 27 States (primarily in the West) until 1992 and disrupt planned activities. States might not have adequate funding for schools, roads, and emergencies.

The impact on the six largest payments would be:

(In millions of dollars)

	1991 Budget	Reduction	Post Sequester
Wyoming.....	\$202	-\$77	\$125
New Mexico.....	101	-38	63
Utah.....	61	-23	38
Colorado.....	37	-14	23
California.....	28	-11	17
Montana.....	23	-9	14
21 Other States.....	31	-12	19
Total.....	483	-184	299

*Department of Justice*

*Drug Enforcement Administration (DEA)*

A sequester would eliminate 1991 program enhancements, thereby crippling this element of the President's drug strategy. Across-the-board reductions to domestic marijuana eradication programs, State and local task forces, foreign cooperative investigations, domestic enforcement programs, and intelligence activities would also be required. Training for State and local police officers and implementation of the Chemical Control and Trafficking Act would also be curtailed. Further, planned purchases of investigative and automated data processing equipment and some major computer contracts would be canceled.

In some cities and rural areas, DEA would simply have no presence. Foreign support would be spread so thin that cooperative efforts with foreign governments would be hindered and the security of our agents would be at great risk. All State and local programs such as task forces, training, and laboratory support would be eliminated. The result might be increased drug trafficking because drug dealers are quick to notice the level of effort expended by the Federal Government on law enforcement.

*Federal Bureau of Investigation (FBI)*

A sequester would leave all 1991 program enhancements unfunded. Funding for the President's Financial Fraud and Crime Initiative packages implemented in 1990 would be reduced. Prosecution of those who have perpetrated savings and loan institutions fraud would be slowed. New investigative programs such as white collar crime investigations aimed at procurement fraud, and investigations of Asian organized crime would be severely impaired. The foreign counterintelligence and drug programs would be diminished substantially. Specifically, the anticipated completion of white collar crime investigations would likely drop by 25 percent (1,000-plus fewer convictions) from planned 1991 levels. The FBI's efforts directed at Asian groups would not advance in 1991 while current investigative efforts would be cut in half. Investigations into La Cosa Nostra and other major organized crime

groups would be cut by 20 percent from planned 1991 levels. Major equipment purchases affecting the fingerprint automation and field office management system programs would be canceled. Training for State and local officers would also be curtailed.

Priority investigative programs and those in which the FBI has sole law enforcement jurisdiction would be affected. As all equipment purchases would be foregone, agents would be inadequately equipped to use the sophisticated investigative techniques required for complex cases. Continued use of obsolete protective equipment would expose agents to possibly dangerous situations. The FBI would be unable to provide adequate support for automated data processing and telecommunications operations integral to information collection and analysis in support of investigative operations. All State and local programs, such as the Uniform Crime Report publications, laboratory analysis of evidence, and fingerprint identification work, would be halted. It is also likely that crime and foreign intelligence activities would increase during this period as the deterrence factor decreases.

#### *Federal Prison System (FPS)*

A sequester would prevent newly constructed prisons with 3,315 beds from becoming operational, and force FPS to move 6,595 prisoners out of non-Federal contract facilities and into its already overcrowded facilities, increasing overcrowding to well over 89 percent from the current level of about 70 percent. It would eliminate the staff increases (2,000 work years) necessary to address inadequate staff levels, and require furloughing 5,600 employees. This would eliminate staff training, greatly reduce FPS's administrative efforts, and reduce the quality and amount of food and medical services, inmate security, and inmate supervision.

Virtually every program available to inmates within the prisons (e.g., rehabilitative and educational) would be eliminated, thereby causing FPS to "lock down" all institutions and inviting inmate idleness, violence, and court intervention.

#### *Immigration and Naturalization Service (INS)*

A sequester would prevent INS from hiring 200 new Border Patrol staff and building new traffic checkpoints to intercept drug and alien smugglers that are important elements of the President's drug strategy. Such a funding level would hamper INS's border enforcement activities, processing of travelers across our land borders, and efforts to deter illegal immigration through detention of aliens and enforcement of employer sanctions. Such massive cutbacks would be likely to lead to major influxes of illegal aliens that were common prior to the enactment of the Immigration Reform and Control Act in 1986.

Even basic operations would be seriously impacted. Reductions in enforcement activities would immobilize operations and seriously jeopardize the ability of the INS to stem the flow of illegal aliens and the ever-increasing flow of illegal drugs. The ability of INS to detain and process criminal aliens apprehended by the Border Patrol would be constrained because of a lack of detention officers and funding to operate detention facilities. Investigations of major alien smuggling operations would be seriously reduced. Major backups would be experienced at ports-of-entry. Backlogs in processing of refugee and asylum applications as well as adjudication requests would be inevitable.

#### *U.S. Attorneys' Office*

Reduced staff resulting from a sequester would prevent litigation of any cases that would have been litigated as a result of increased resources provided for the crime and financial institution fraud initiatives in 1990. Specific areas that would be affected are prosecutions of narcotics cases, bankruptcy and procurement fraud cases, and other criminal fraud prosecutions.

U.S. Attorneys would be forced to abandon almost 25 percent of all ongoing litigation designed to obtain criminal convictions against violators of substance abuse, immigration and civil rights laws, organized criminal groups, and tax evaders. Attorneys would slow down efforts to recover monies from failed institutions resulting from saving and loan and bank fraud violations. All ongoing activities for collecting monies owed to the Government would be limited. Litigation designed to defend the Government from substantial monetary losses as a result of other types of fraud would be reduced.

## ***Department of Labor***

A sequester would have the following effects on Department of Labor (DOL) programs, compared with the 1991 request:

- Some 8,000 work years would be lost across all DOL agencies, requiring reductions-in-force in all enforcement programs. Among other effects, some 29,100 fewer work places would be inspected by the Occupational Safety and Health Administration, 27,400 fewer mine inspections would be initiated, increases for improving pension oversight as well as some base funding would be eliminated, and DOL's ability to maintain its core national labor force statistical series would be in jeopardy.
- In the DOL State grant programs area, States would close 250 or more of the 1,900 local offices that process walk-in unemployment insurance claims and provide employment services. Staff at remaining offices and operating hours would be reduced. Claims delays would be universal—taking up to five days in some areas; States would divert any remaining resources from program integrity efforts and devote them to processing claims. The quality control program would be abandoned.
- For the Job Corps, the sequester would mean reducing the program by up to 15,600 slots. This could require closing about 39 of the existing 107 Job Corps centers, reducing the number of centers to 68. Work on acquiring and operating the six new centers mandated by Congress would have to cease if current centers have to be closed. As a result, no funds would be available to operate the two new centers scheduled to open in 1991, while plans to open two new centers in 1992 and 1993 would be postponed or curtailed. The Job Corps anti-drug initiative would be canceled.
- Some 141,000 fewer participants would be served in the President's Job Training Partnership Act (JTPA) training program for severely disadvantaged adults and 260,000 fewer low-income young adults would be enrolled in the new initiatives targeted on this at-risk group. Participation in each program would drop by about 38 percent. Implementation of the President's new JTPA initiative would be curtailed. About 91,000 fewer displaced workers would receive readjustment assistance in JTPA's dislocated worker program.
- Approximately 21,500 fewer subsidized job slots for low income persons age 55 and older would be financed in the Older Americans Employment program, representing a 38 percent cut in program participation.

## ***Department of State***

Under a sequester in operations accounts, large infrastructure related projects, such as construction of the new Foreign Service training facility would stop, and procurement and maintenance would be eliminated. Maintenance at over 2,200 Government-owned and long-term leased properties overseas would fall below minimum levels, and the Department would be forced to defer the foreign affairs community's high priority telecommunications enhancement (DOS'TN) as well as important consular, procurement, accounting and finance computer upgrades. In addition, nine embassy construction projects at high threat posts planned to begin in 1991 would be put on hold because of a lack of construction security funds, and plans for new construction projects would be eliminated. Major rehabilitations of four high priority posts would also be deferred.

The Department of State would be required to either close, or significantly reduce staffing in, the majority of its over 240 overseas missions. Except in a few critical instances, most diplomatic reporting and representational activities would stop. Public oriented activities such as consular and visa services and trade promotion programs would either cease or be limited to only emergency situations. Services to the public from Washington and other domestic offices in areas such as passport issuances, munitions licensing, Freedom of Information requests, and export promotion would either cease or be reduced to unacceptable levels.

The security of the Department's personnel, property, and classified information would be threatened by reductions in physical and technical security programs. The multi-billion dollar inventory in overseas properties, anti-terrorism equipment, and information management systems would be left

vulnerable to both technical and security failures because of the lack of funds for required maintenance and repair. Overseas inspections, including those of the newly-established Office of Security Oversight, would be eliminated.

The State Department would be unable to meet U.S. treaty obligations for our assessed share of the budgets of international organizations, thereby increasing total U.S. arrearages to over \$1 billion. This would likely result in the loss of our vote in some of the UN-affiliated and other international organizations. In addition, U.S. effectiveness would be hurt in shaping the agendas of multilateral organizations that manage programs such as nuclear energy safety, AIDS research, and the peaceful resolution of armed conflicts in important regions of the world such as Central America and Middle East. It would also reduce the U.S. ability to participate in the critical Conference on Security and Cooperation in Europe (CSCE), "Open Skies", and other conferences that are aimed at influencing the fundamental changes occurring in East-West relations.

Anti-narcotics efforts associated with the National Drug Control Policy in the Andean nations of South America, overseas humanitarian assistance, and funded refugee admissions into the United States, particularly from the Soviet Union, would be reduced. Efforts to improve anti-terrorism programs designed to prevent the reoccurrence of disasters like that of Pan Am 103 would be hindered.

### *Department of Transportation*

#### *Federal Aviation Administration (FAA)*

Under a sequester, the hours of operation at virtually all airport control towers and, therefore, the number of flights between cities, would be reduced. The air traffic control system would turn into chaos. Reductions of this magnitude would unquestionably require the airlines to cancel numerous scheduled flights with negative financial consequences for the airline industry. Major cutbacks in the air traffic controller work force would produce service interruptions far more extensive than those experienced after the 1981 strike. Delays to air travelers would increase by 400-600 percent. Even worse, a major FAA cutback and disruption in 1991 would affect air travelers for at least three years due to recovery problems.

There would be extensive closure of facilities, including all contract towers. Over 100 control towers would have to be taken out of service or the hours of operation drastically reduced. Implementation activity and training for modernization of the airspace system would be curtailed. Training and hiring for the future air traffic control computer system would fall three years behind schedule.

Delays in repairing navigational aids would cause time-consuming rerouting of aircraft and intermittent closure of some airports. Reductions in safety inspector and security staff, including Federal air marshals, would result in fewer scheduled inspections of aircraft and airports.

Many major computer and radar contracts that are approaching the peak year of their delivery schedules would be canceled or renegotiated. This would add several years to the schedule for modernization the air traffic control system. Contract penalties due to stop-restart requirements of the sequester would exceed \$500 million. Critical technical skills would be lost for several years.

FAA also would have to postpone: (1) the replacement of various facilities, such as airport control towers planned for San Diego, Chicago Midway, Kansas City, and Los Angeles and stall construction already underway at Chicago O'Hare, St. Louis, and Newark; (2) upgrading computer software and hardware used by controllers to separate aircraft, which could exacerbate the problem at some facilities of information disappearing from controller radar screens; (3) joint development of long range radar replacements used to ensure safe operation and separation of aircraft; (4) establishment of a voice communications system required for the sector suite system; and (5) maintenance of many FAA buildings and facilities, which would delay FAA work to strengthen buildings in earthquake risk areas and to extend the service life of buildings built in the 1940's that house electronic systems. Cuts of this size would also postpone installation of equipment needed at the new Denver airport and continued expansion at Dallas/Fort Worth.

Installation of approximately 400 items of national airspace system equipment procured in prior years would be delayed. This would jeopardize the safety of the air transportation system and result in further delaying modernization of the system. Such delays would include the upgrade of radar, communications, weather information, automated data processing, and tower and en route center equipment.

Critically needed airport improvement and capacity enhancement programs related to providing new capabilities directly aimed at reducing congestion in the national air system would be deferred. This would include a slowdown in the interim plan to support the airspace system until modernization is completed.

The FAA would be unable to follow-through with current efforts to expand its overseas security presence and full implementation of the recommendations of the President's Commission on Aviation Security and Terrorism would be slowed. Also, FAA would delay implementation of anti-drug activities required by the Drug Control Act of 1988.

Select research and development contracts would be canceled or delayed. Progress on numerous FAA research and development programs that are directly tied to safety and capacity improvements for air traffic control computers would be delayed by more than a year. Progress on new explosive detection technology research would continue but at a much slower rate. The President's Commission on Airline Security and Terrorism recently urged acceleration of this research.

#### *Federal Railroad Administration*

A sequester would result in a 40 percent reduction in scheduled safety inspections of railroad track, bridges, equipment, and operations. In addition, DOT's automated track inspection vehicle would have to reduce planned operations from a planned 28,500 miles to 20,500 miles on passenger, hazardous materials, and other priority routes. Federal oversight of the railroad industry's actions to eliminate drug and alcohol usage among railroad workers would be interrupted.

#### *Department of the Treasury*

##### *Internal Revenue Service (IRS)*

A sequester would primarily affect revenue-generating enforcement activities with an estimated revenue loss of \$8.5 billion. The indirect effects on voluntary compliance produced by the perception of a faltering IRS enforcement presence would be even greater. Taxpayer service would fall precipitously and taxpayers would find it more difficult to complete their returns; 15 million fewer taxpayers would receive assistance and busy signals for those seeking assistance by telephone would increase exponentially.

All computer investments, including the critical Tax System Modernization project, would be deferred, increasing the chance of a returns processing breakdown in the future. Returns processing work would demand top resource priority but there would be delays in refund checks. If it takes IRS longer than 45 days to process a refund, interest must be paid to the taxpayer. The impact of the sequester would greatly increase these interest payments. Tax processing errors would increase as fewer employees, struggling to meet workload, would not be able to exercise proper care and attention to their work.

The projected loss of 9,000 workers in returns processing would prevent a closure of filing season work (e.g., returns processing for one year would not be completed before returns for the next year arrived). Inventories of unprocessed returns would grow into subsequent years. There would be no IRS participation in the war on drugs in order to preserve a focus on essential criminal tax fraud issues.

##### *United States Customs Service*

A sequester would eliminate all 1991 initiatives, including staffing for the southwest border, canine enforcement teams, money laundering investigations, and financial integrity. Additionally,

staffing cuts of roughly 50 percent would be required, with commensurate declines in enforcement and commercial program effectiveness.

In practical terms, a sequester would mean fewer cargo container inspections (36 percent less than 1990), a 120 percent increase in delays in releasing cargo, lost tariff revenues, and fewer drug seizures. The protection afforded domestic industry by Customs enforcement efforts would erode. Investments in the labor saving Automated Commercial Systems (ACS) program would be postponed. Longer passenger processing delays would occur at border crossings and airports. Many of the smaller ports along the northern border and other locations could be closed or face curtailed service hours.

An estimated \$1 billion in revenue would be lost due to lack of adequate processing controls. Contraband entries would expand and the war against drug imports would be severely hampered.

### ***Department of Veterans Affairs***

A sequester, compared with the 1991 request, would:

- Require significant reductions in purchases of medical and other supplies and equipment, prevent the opening of new facilities, cancel 1991 initiatives (e.g., increases for drug abuse treatment, quality assurance, physician and nurses pay), reduce medical care staff years by 15,600 or eight percent, and reduce the number of incidents of care (e.g., hospital stays and outpatient visits) provided to veterans by 2.0 million;
- Reduce operating staff associated with the Veterans Benefits Administration, the National Cemetery System, and administrative activities, forgo scheduled computer upgrades and acquisitions, and delay interments in many of the smaller national cemeteries. Staff reductions in regional offices would be inevitable and would reduce the timeliness and quality of benefits claims processing and the servicing of delinquent guaranteed loans below 1990 levels;
- Reduce bed levels (by 350) and clinical services in all proposed construction and renovation projects (medical centers, regional offices, and cemeteries). Project redesigns caused by reductions in the size and scope of these projects would delay planning and construction by at least a year and nine months and hamper the provision of quality health care to eligible veterans; and
- Disproportionately reduce the contributory Montgomery bill program (because over half of the educational programs for disabled veterans' dependents and vocational rehabilitation are exempt) affecting annual benefit payments ranging from \$1,300 to \$2,200 to nearly 125,000 veterans and service persons.

### ***Other Agencies***

#### ***Commodity Futures Trading Commission (CFTC)***

A sequester would have a devastating impact on enforcement actions, especially in light of the recent trading abuses in the Chicago futures markets. This would permit only 79 enforcement actions to be completed compared to 124 in 1989, a reduction of 64 percent. Market surveillance would be reduced by 25 percent at a time when additional surveillance is needed to protect hedging and pricing functions of these markets. There could be increased commodities fraud as no new enforcement actions would be undertaken. The result would be a less competitive market environment with less protection for market participants. For example, family farmers who forward price their products with county grain elevators would be exposed to greater market risks. CFTC's overall program output would be reduced by one-half, reversing actions to increase and strengthen CFTC's regulatory capacity.

#### ***Environmental Protection Agency (EPA)***

The major impacts of a sequester would be:

- Severe reductions in State environmental programs, which typically receive half their funding from EPA grants;
- Cancellation of EPA's wetlands initiatives;

- A decreased level of corrective actions undertaken at operating hazardous waste facilities at a time when EPA will be responsible for an expanded universe of regulated facilities and hazardous substances;
- Delays in the development of regulations and inability to meet court-ordered deadlines for various regulations;
- Reduced information made available to the public because of reductions in automated data processing funding;
- Severe limitations on EPA's ability to implement the new Clean Air Act amendments. EPA probably could not meet the first year deadlines in the Clean Air Act amendments and technical and financial assistance to States to implement the amendments would be severely restricted;
- Halting all new Superfund cleanups, undermining the public's confidence in Federal clean-up efforts; and the Government's leverage to make the polluters pay. Decreased enforcement and fewer cleanups funded by responsible parties, and more fund-financed cleanups. Lower cost recoveries would prevent the fund from being replenished;
- Severe slippage in numerous Clean Water Act requirements, including monitoring of water quality, issuance of National Pollutant Discharge Elimination System (NPDES) permits, and development of water quality criteria;
- Serious delays in the cleanups of specific bodies such as the Great Lakes, the Chesapeake Bay, and the 17 estuaries in the national estuary program;
- Reduction of 50 percent in air pollution enforcement activities such as stationary source inspections, notices of violation, administrative orders, and civil and criminal litigation; and
- Curtailed analysis of Toxic Release Inventory (TRI) reports, delay availability of the TRI data base to the public, reduce resources available for data quality assurance, and eliminate enforcement actions against non-reporters.

### *Judicial Branch*

A sequester would have the following effects:

- 30 percent of Federal defenders' cases and 100 percent of panel attorney cases would be dismissed for failure to provide counsel, or counsel would be appointed without compensation;
- 3 percent of the estimated payments committed to pay panel attorneys for prior year case assignments could not be paid;
- Inmates filing new death penalty *habeas corpus* petitions would not have their cases reviewed by a Federal court, or counsel would have to be appointed without compensation;
- Funds would not be available for fees of jurors for civil trials, denying the public their right to a civil jury trial;
- Funds would not be available for fees of jurors for approximately two months of the year for criminal trials;
- The community supervision programs of the probation system would suffer the burden of personnel shortages; 52 percent of the offenders in these programs would not have their supervision enforced;
- Testing and treatment of 19 percent of drug offenders would be terminated; and
- Expansion of home detention (electronic monitoring) of offenders could not be accomplished resulting in increased jail costs.

### *National Aeronautics and Space Administration (NASA)*

A sequester would cause a major restructuring of all NASA activities. The Space Station would be canceled (with a termination liability of about \$600 million). In space science, technology and aeronautics, the Moon/Mars Initiative and Mission to Planet Earth would be deferred and two to

three major science projects under development would have to be canceled (e.g., Comet Rendezvous/Asteroid Flyby, Advanced X-Ray Astrophysics Facility). In addition, reductions would have to be made in the operations support for spacecraft (e.g., Magellan mission to Venus). With the exception of critical safety-related items, all facility construction and renovation would be stopped.

The 10 planned Shuttle flights during 1991 would be postponed or canceled. The eleven missions planned for 1992 would also have to be postponed or canceled, effectively suspending Shuttle operations until 1993. (Recovery from this suspension would entail a re-hiring and recertification of the contractor work force.) The purchase of critical spare parts, the development of the Advanced Solid Rocket Motor, and the procurement of expendable launch vehicles would be terminated. All planned safety improvements to the Shuttle would be deferred. Additional terminations or postponements would include all shuttle engine ground testing, all orbiter modifications, all planned Shuttle equipment upgrades, and all procurement of upper stage rockets and payload operations. Engineering laboratories and on-line Shuttle facilities would be placed on a "caretaker" status.

#### *National Science Foundation (NSF)*

A sequester would terminate support to roughly 28,000 individuals, including senior investigators, graduate and undergraduate students, pre-college teachers, and high school students. In addition, it would defer or terminate all new initiatives and many existing programs, including Science and Technology Centers, Engineering Research Centers, precollege education programs, graduate fellowships, and global change research. It would shut down the U.S. Antarctic program for 1991 operations and defer or terminate any remaining activities in the economic competitiveness and human resources areas.

#### *Office of Personnel Management (OPM)*

A sequester of OPM's civilian retirement obligation limitation would: (1) increase existing backlogs in death claims, refunds, and initial annuity payout processing (currently, the initial annuity payment can take as long as six to nine months and lump-sum refunds about 3 months to process) and would likely extend by three to six months the processing of initial annuity and lump-sum payments; (2) stall design and development of the automated Federal Employees' Retirement System (FERS) project that is meant to automate FERS retirement processing and definitely push into 1992 or beyond the major start-up activities for the FERS automated record keeping system. This would result in the continuing build-up of paper records for the FERS system similar to what exists for the Civil Service Retirement System.; and (3) force cutbacks in essential processing staff training and quality assurance activities.

OPM would eliminate all 1991 initiatives including funding for the Public Policy Scholarship, training for front-line workers, and the Commission on the Public Service. The Presidential Management Intern Program would not be permitted to double in size as was authorized by Executive Order. It would eliminate OPM's ability to implement pay reform, would cut current staffing levels, and require the consolidation of area offices and the deferral of the acquisition of new computer equipment. The backlog of National Agency Checks and Investigations would increase by about 32,000 cases as OPM would not be able to provide timely investigations for agencies.

OPM would lose oversight and evaluation capacity and staffing research and development.

OPM's retirement and insurance functions would probably not possess the level of resources for account maintenance activities, to carry out its fiduciary responsibilities, or to provide a minimally acceptable level of services to its beneficiaries.

Civilian retirement claims processing reductions would put in jeopardy the timely payment of monthly annuities to 2.2 million Federal civilian retirees. The typical annuitant receives a monthly annuity of approximately \$1,450 (\$17,400 per annum) and may have no other source of retirement income. Delays in the payment of annuities could prevent annuitants from being able to finance their basic necessities.

Retirement and insurance processing times for interim payments, annuity cases, death cases and refund claims would double and triple. Workload balances for annuity, death, refund and deposit claims, annuity roll maintenance, and health benefits disputed claims would increase three- to ten-fold.

Congress and senior citizen advocates would strongly object to delayed processing of monthly annuity checks. The lengthy delay in processing initial annuity payments would directly conflict with an Administration goal and a President's Commission on Management Initiatives commitment to expedite new retiree initial annuity payments.

Reductions in the Government Payments for Annuitants would prevent payment of the Government's share of health premiums. A cut in enrollee payments might occur.

Front-line training initiatives would be eliminated. The time needed to fill agency job requests would double or triple, and the Presidential Management Intern Program and other entry-level programs designed to bring new talent into the Federal Government would be eliminated.

The time needed to process special rate requests would more than double and compliance activity and work on classification standards would be cut by half. This would result in less qualified staff Government-wide, thus severely degrading the quality of products and services.

OPM could not pay the Federal Employee Health Benefit carriers the Government share of employee health insurance premiums. The result would be a cut in enrollee benefits. Reductions in the Government Payment for Annuitants would result in the Government being negligent in meeting its statutorily required payment on behalf of annuitants.

#### *Railroad Retirement Board*

A sequester would reduce railroad retirement supplemental annuities by \$34 million. Supplemental annuities are paid to roughly 200,000 rail retirees who have 25 or more years of railroad service. Railroad unemployment and sickness insurance benefits would be reduced by \$40 million from the estimated \$105 million. The reduction would affect the welfare of 60,000 railroad workers dependent on unemployment and sickness benefits.

#### *Small Business Administration*

A sequester would force as many as 40 field offices to close. Small Business Assistance and Advocacy programs, including programs for the promotion of minorities, women and international trade assistance, would be sharply curtailed. Lending and surety bond program levels would be reduced by more than \$2.1 billion.

THE WHITE HOUSE

WASHINGTON

September 25, 1990

MEMORANDUM FOR SPEECHWRITERS AND RESEARCHERS

THROUGH: CHRISS WINSTON *W*  
 FROM: BOB SIMON *BS*  
 SUBJECT: COUNTDOWN TO SEQUESTRATION

For speeches this week, there have been some disparities between speeches as to how many days it is until sequestration, how many days the budget summit has been in progress, et cetera.

To clarify these facts and dates, and to make sure we're all singing out of the same hymnbook, I have prepared the following calendar.

1. On May 15, the first budget summit session was held. The summiteers met in the Oval Office with the President. That was 133 days ago.
2. On June 26, the President issued his famous statement saying "It is clear to me" that "tax revenue increases" are needed in any agreement. That was 91 days ago.
3. On July 26, the Administration put forward a 5-year, \$500 billion comprehensive budget proposal. Congress had agreed to submit their own plan, but failed. That was 61 days ago.
4. If there is no budget agreement passed by Congress and signed by the President, sequestration begins on October 1st. That is 6 days from today, September 25.

September

Sun	Mon	Tue	Wed	Thur	Fri	Sat
		25	26	27	28	29
		133	134	135	136	137
		91	92	93	94	95
		61	62	63	64	65
		6 days	5 days	4 days	3 days	2 days
30	Oct. 1					
138	139					
96	97					
66	67					
1 day						



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20410-0001

September 24, 1990

TO: DAVID DEMAREST  
ASSISTANT TO THE PRESIDENT

FROM: MARY BRUNETTE *Mary Brunette*  
ASSISTANT SECRETARY-DESIGNATE OF PUBLIC AFFAIRS  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

RE: SEQUESTRATION

-----  
The following is provided in response to your request on Friday, September 21 for examples of the impact of sequestration on the Department of Housing and Urban Development.

The vast majority of HUD's funding is allocated through incremental grant programs like CDBG, homeless assistance programs, housing for the elderly and handicapped, and public housing rehabilitation. In the event of a sequester, the funding available for new grants under these programs will be reduced, but no one who is currently being assisted will be impacted.

However, a sequester will have an immediate impact on two areas that are very much in the public eye.

First, a reduction in the loan limitation for the Federal Housing Administration will result in a reduction of 145,000 units of FHA insurance written in FY 1991. To achieve this, limits will be placed on the amount of insurance which can be committed each month through each field office. This could result in delays and hardships for potential homebuyers and sellers, and would have a negative impact on an already soft real estate market.

Second, HUD heavily subsidizes the operating budgets of public housing authorities. Severe reductions in funding for this purpose will reduce funding for security, anti-drug programs, utility payments, routine maintenance and other activities at public housing communities around the country. This could be very much in the public eye if security guards are laid off, heat and hot water are not provided, etc. While there is probably room in the budgets of many PHAs to absorb some of the reductions without impacting essential services, their bias will be to make the reductions as painful as possible.

I hope this information is helpful to you. Please let me know if you need any further assistance.



Office of the Attorney General  
Washington, D.C. 20530

September 25, 1990

MEMORANDUM TO: David F. Demarest  
Assistant to the President  
for Communications

FROM: David Runkel *D.R.*  
Director for Communications

SUBJECT: Budget Sequestration

FBI

Sequestration would disrupt many of the FBI's ongoing and planned investigations including investigations into: savings and loan, international drug trafficking organizations and organized crime. Additionally, the FBI's foreign counterintelligence and counterterrorism would be greatly curtailed.

Fingerprint and identification work, the linchpin of the nation's criminal justice network, would be delayed.

DEA

Sequestration would impact on DEA's investigative capabilities in all areas of the country. This will have the most severe impact on High Intensity Drug Trafficking areas such as New York, Los Angeles, Miami, and Houston.

There would be crippling effects in the agency's ability to collect, analyze and disseminate intelligence on drug trafficking.

DEA would be forced to dramatically withdraw its drug

enforcement support to all foreign governments, particularly  
damaging drug control efforts in the Andean countries.

MARSHALS

Because there would not be adequate protection for the  
courts, recommendations for continuances of trials would be  
sought--thereby, in some cases, resulting in violations of the  
Speedy Trial Act and forcing the release of those charged.

What Sequestration means

to :

HUD

Interior

Transportation

Treasury

Education

All agencies

Have been asked

to get info to us

By the End of

Today!

D.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20410-0001

September 24, 1990

TO: DAVID DEMAREST  
ASSISTANT TO THE PRESIDENT

FROM: MARY BRUNETTE *Mary Brunette*  
ASSISTANT SECRETARY-DESIGNATE OF PUBLIC AFFAIRS  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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# United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240  
September 25, 1990



More GRH...

-- Many seasonal temporary firefighters must be terminated, severely restricting initial attack capability in combating range and forest fires on federal lands.

-- If GRH continues for more than a week, nature lovers and sportsmen will be affected by curtailment of access and visitor services at three-quarters of our national wildlife refuges. Wildlife research, including that into saving of endangered species, will be put on hold.

-DOI-



U.S. Department of  
Transportation

Office of the Secretary  
of Transportation

# Memorandum

Subject: DOT/Sequester Talking Points

Date: September 24, 1990

From: Marion Blakey *MB*  
Acting Assistant Secretary  
for Public Affairs

Reply to  
Attn. of:

To: David Demarest  
Assistant to the President  
for Communications

As you requested from last Friday's meeting of departmental public affairs contacts, the following are talking points regarding the effects of a possible sequester on U.S. transportation that could be used in Presidential speeches:

\*A sequester would result in major air traffic delays and flight cancellations, greatly inconveniencing the traveling public. Air traffic controllers and other personnel would be furloughed, the delivery and installation of air traffic modernization systems would be delayed, and maintenance and security inspections would be cut back. Only planes that have been inspected for safety and that the air traffic control system can accommodate will be permitted to fly.

\*Although the Coast Guard cannot, by law, furlough military personnel, a sequester would require an 80 percent reduction in operations and furloughing of civilian employees. This action would greatly reduce their ability to conduct search and rescue operations, drug interdiction and the enforcement of maritime laws.

\*Highway grants would be limited under a sequester to the lowest level since FY 1981. This would significantly delay highway construction projects, causing traffic congestion and necessitating re-routings for commuters.

\*In a sequester, Amtrak assistance would be reduced, resulting in cancelled train service.

I hope this material is helpful to you. Please contact me at 366-4570 if I can provide further information.



# United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240



September 24, 1990

If GRH Goes Into Effect...

-- People across America visiting National Parks will find gates closed on certain days; for example, the USS Arizona Memorial in Hawaii and the Washington Monument in Washington, D.C., will be closed on Mondays and Tuesdays. Beginning Oct. 1, the Statute of Liberty, which normally has 20,000 visitors per day, will be restricted to 10,000 visitors per day, and will be totally closed, along with Ellis Island, for two days each week (probably Mondays and Tuesdays).

-- National Park visitor centers and campgrounds will be closed in a number of locations; for example, at Yellowstone National Park and at the popular Glen Canyon Recreation Area.

-- Park police will not have adequate personnel to provide traffic control on some heavily used parkways, including George Washington and Rock Creek Parkways in Washington, D.C.

-DOI-

Commissioner's remarks about the effects of sequestration on the Customs Service excerpted from her remarks before the San Diego Brokers and Freight Forwarders Association, Friday, August 31, 1990

I'M NOT HERE TODAY TO MISLEAD YOU, BUT AT CUSTOMS, WE MAY BE LOOKING AT A VERY SERIOUS BUDGET CRISIS. WE'RE NOT TALKING ABOUT A GOVERNMENT SUSPENSION. NO, WE'RE BRACING FOR A SEQUESTER WHICH IS A REAL AND PERMANENT LOSS OF FUNDS.

WHAT DOES THAT MEAN FOR CUSTOMS AND ALL OF YOU IN THE TRADE COMMUNITY? IN THE FIRST TWO WEEKS AFTER SEQUESTER, OUR RESOURCES WOULD BE DRASTICALLY REDUCED. RIGHT AWAY, OUR HOURS OF INSPECTION WOULD BE CURTAILED, WITH THE 24 HOUR LAND BORDER PORTS OPERATING ONLY 12 TO 16 HOURS DAILY. SERVICES AT MAJOR AIRPORTS MIGHT WELL BE REDUCED FROM THE PRESENT 18 TO 24 HOURS TO 12 HOURS DAILY.

VESSELS ARRIVING AFTER 6 P.M. AT SEAPORTS WOULD ONLY BE BOARDED AND ENTERED ON THE FOLLOWING BUSINESS DAY FROM MONDAY

THROUGH SATURDAY. SUNDAY ACTIVITIES WOULD BE SEVERELY RESTRICTED, AS THE COBRA USER FEE WOULD ALSO BE SEQUESTERED.

IN THIS "WORST CASE" SCENARIO, AUTOMATED SERVICES TO THE TRADE COMMUNITY COULD BE REDUCED TO 12 HOURS. IF SEQUESTRATION CONTINUED FOR MORE THAN TWO WEEKS, WE WOULD HAVE TO GIVE SERIOUS CONSIDERATION TO SHUTTING DOWN OUR AUTOMATED SERVICES ENTIRELY.

WHEN YOU CONSIDER THE ROLE THAT CUSTOMS PLAYED RECENTLY IN THE INTERDICTION OF WEAPONS AND PRE-CURSOR CHEMICALS TO IRAQ, IT'S DIFFICULT TO IMAGINE THAT OUR NATIONAL SECURITY COULD REMAIN UNAFFECTED BY ALL OF THIS. AND IN TERMS OF DRUG ENFORCEMENT, CUSTOMS AGENTS AND INSPECTORS WOULD NOT BE ABLE TO INTERDICT DRUGS AND CONDUCT OTHER INVESTIGATIONS ADEQUATELY BECAUSE OF A LACK OF MANPOWER AND SUCH SIMPLE THINGS AS GASOLINE AND BULLETS.

SOUND DIRE? OF COURSE IT DOES. BUT THAT'S NOT ALL. AS THE OLD ADAGE GOES, "THINGS ARE TOUGH ALL OVER." SEQUESTRATION WOULD AFFECT EVERY FEDERAL AGENCY -- NOT JUST CUSTOMS. AND IF AGENCIES LIKE THE FAA AND DOT ARE ALSO HIT, A DELAY IN PROCESSING MAY BE A SMALL INCONVENIENCE COMPARED TO THE FRUSTRATION CAUSED BY FLIGHT CANCELLATIONS AND AIRPORT CLOSINGS.

HOW ARE WE GOING TO DEAL WITH ALL THIS IF A SEQUESTRATION DOES OCCUR?

IN ONE WORD -- TOGETHER.

IF WE INTEND TO SURVIVE IN THE LONG-TERM, WE MAY HAVE TO COMMIT OURSELVES TO SOME VERY INTENSIVE SHORT-TERM COOPERATION. WHETHER A SEQUESTER OCCURS OR NOT, I KNOW YOU NEED MORE PEOPLE HERE IN SAN DIEGO. NO ONE KNOWS AS WELL AS I THAT TRADE IS

3

INCREASING EXPONENTIALLY -- THAT NEW INTERNATIONAL FLIGHTS ARE PLANNED -- THAT TRAFFIC GROWS AT A DAILY RATE. BUT GIVEN THESE REALITIES AND THE STRINGENT DEMANDS OF DEFICIT REDUCTION, WE HAVE NO CHOICE BUT TO DEVISE A STRATEGY THAT WILL ALLOW US TO GET US THROUGH THESE VERY ROUGH AND UNCERTAIN TIMES, PARTICULARLY IF A SEQUESTER OCCURS.



UNITED STATES DEPARTMENT OF EDUCATION  
PUBLIC AFFAIRS

OFFICE OF THE DIRECTOR

September 24, 1990

TO: Deb Amend  
Special Assistant to the President  
for Communications  
The White House

FROM: Etta Fielek  
Director of Public Affairs  
U.S. Department of Education

SUBJECT: Impact of Sequester on Department of Education

Attached for your information is a summary of the impact of a 31.9 percent sequester on Department of Education programs. I won't characterize one program or another as more or less sensitive. These are all big programs with important constituencies.

In terms of employee impact: because they are separately funded, three ED departments would be affected by a sequester from Oct. 1. They are the Office of the Inspector General, Office of Civil Rights and Office of Indian Education. Heads of these offices are already planning for furloughs. Most other ED departments should be able to avoid furloughs until the middle of October.

I enjoyed seeing so much of you last week. Aside from that personal comment, occasional meetings help us kids in the departments feel more connected to the President's agenda.

Attachment

Impact of the Sequester on the Department of Education Programs

The 1991 sequester would mean that budget authority for the Department of Education would be reduced by \$6.4 billion from the GRN baseline amount of \$25.7 billion to \$19.3 billion. This would be a \$5.4 billion reduction from the 1990 level.

Examples of how the 31.9 percent sequester would affect Department of Education programs follow:

- o Chapter 1 Grants to LEAs--the \$1.6 billion sequester would result in a decrease below the 1990 level of approximately 1,974,000 children served, based on a projected average Federal contribution of \$803-\$834 per student.
- o Pell Grants--the \$1.6 billion sequester would eliminate awards averaging \$1,000 to 1.4 million recipients and would reduce awards to another 2 million students by an average of \$120.
- o Guaranteed Student Loans--the sequester would be \$44.6 million. Under the special rules established for the GSL program, only new loans made during the fiscal year would be affected. For these loans, the special allowance to lenders would be reduced from 3.25 to 3.0 percent, and the origination fee charged to borrowers would be increased from 5 to 5.5 percent (e.g., an increase of \$12.50 on a loan of \$2,500). No reduction in loan volume would result.
- o Education for the Handicapped Grants to States--the \$512.8 million sequester would reduce the Federal share for each child served by \$116, or about one-third, based on an estimate that 4.425 million disabled children would be served under the program in 1991.
- o Vocational Rehabilitation Grants to States--although special rules limit the cut to the inflationary increase over the previous year, the \$68.6 million sequester would result in the inability of the States to maintain the level of service provided in 1990. The sequester would reduce the amount of funds available for services to clients and the number of new clients State agencies could serve.
- o Drug-Free Schools and Communities programs--the \$179 million sequester would result in an average reduction of \$2.9 million in formula funds available to each State. Additionally, one-third fewer school personnel and emergency grants would be awarded; several grant and technical assistance projects under the National programs would be eliminated; planned evaluations and studies would be postponed; and significantly less prevention materials would be disseminated.
- o Adult Education State Grants--the \$52.5 million sequester would reduce the average grant per State by approximately \$920,000 and the number of adults served by roughly \$1.1 million.

don't have an agreement is simple: Congress hasn't acted on our proposals. Let me give you a little history. On June 26, with the budget summit going nowhere, I was asked to make a sacrifice -- to allow taxes to be put on the table. Not my first choice. Not my second. But ~~to get~~ <sup>in an effort to get</sup> Congress <sup>off hand Carter</sup> ~~to act~~, it was a <sup>concession</sup> ~~choice~~ that had to be made. A month later, our Administration prepared ~~to~~ <sup>to be</sup> ~~reviewed~~ <sup>to be</sup> comprehensive budget plan. The Democrats offered none. Now, sixty-four days after that, Congress has still failed to offer serious spending cuts and they have failed to offer serious budget reform. ~~It~~ <sup>We have</sup> proposed a 5-year, \$500 billion deficit reduction package -- and still, no serious <sup>number of serious</sup> ~~action~~ <sup>resolution of the major</sup> by the Congress. Well, they may not be serious, but the American people are. \\

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You've seen the headlines about these negotiations, and the arguments over which party is "on the side of the working people." I'm talking about incentives for <sup>job</sup> growth like the capital gains <sup>issue + RFD</sup> ~~tax cut~~ -- because I want to continue economic growth, <sup>and create some new employment opportunities</sup> and avoid a recession. ~~A majority of the both houses of Congress voted in favor of it last year -- because both~~ Republicans and Democrats understood that cutting the capital gains tax means <sup>creating more American jobs and promoting economic growth.</sup> Yet the Democrat leadership has prevented it from becoming law. Let others create class warfare, ~~we want to~~ keep creating jobs -- for all the American people. \\

~~Because of~~ <sup>our</sup> Congressional ~~foot-dragging~~ <sup>system makes it hard to make tough choices</sup>, the nation is now four days away from mandated sequestration -- multi-billion

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dollar across-the-board budget cuts that will have a damaging effect on Americans -- young and old, rural and urban. Let me give you a few examples of what life will be like when that sequester hits. Approximately a million children would not be vaccinated for polio, measles, and rubella. Pell grants for over a million college students would be eliminated outright. Here at O'Hare Airport, flights will be cancelled -- in fact, each day, up to 58 arrivals and departures would be cancelled per hour -- because there wouldn't be enough air traffic controllers to ensure safe operations.

Virtually every segment of American society would be seriously affected by the sequester -- except one. That's right, one special group has left itself exempt from the toughest enforcement rules of sequester: the United States Congress.

It's time we sent a message to Congress: No more government by continuing resolution. Time has run out. Congress must act because America deserves better. \\

At no time in post-war history has a strong and economically healthy America been more important. And we all know who is helping keep America strong half-way around the world: those brave soldiers who left their spouses and children to serve on the front lines in the Persian Gulf. \\ They are some of America's finest men and women. And we're proud of all of them. \\

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Joe February  
April  
called for Summit

don't have an agreement is simple: Congress hasn't acted on our proposals. Let me give you a little history. On June 26, with the budget summit going nowhere, I was asked to make a sacrifice -- to allow taxes to be put on the table. Not my first choice. Not my second. But to get Congress to <sup>act</sup>, it was a <sup>concession</sup> choice that had to be made. A month later, our Administration prepared a <sup>rather</sup> revised comprehensive budget plan. The Democrats offered none. Now, sixty-four days after that, Congress has still failed to offer serious spending cuts and they have failed to offer serious budget reform. I've proposed a 5-year, \$500 billion deficit <sup>no serious</sup> reduction package -- and still, no serious action by the Congress. Well, they may not be serious, but the American people are.\\

You've seen the headlines about these negotiations, and the arguments over which party is "on the side of the working people." I'm talking about incentives for growth like the capital gains <sup>issue</sup> tax cut -- because I want to continue economic growth and avoid a recession. A majority of the both houses of Congress voted in favor of it last year -- because both Republicans and Democrats understood that cutting the capital gains tax means creating more American jobs and promoting economic growth. Yet the Democrat leadership has prevented it from becoming law. Let others create class warfare, we want to keep creating jobs -- for all the American people.\\

but we must have spending

Because of Congressional <sup>tough choices</sup> foot-dragging, the nation is now <sup>and counting</sup> four days away from mandated sequestration -- multi-billion

that is what they have been enforcing

*We know there will be tough there will be pain but they had a purpose to force discipline on a system that had no discipline moment of truth*

dollar across-the-board budget cuts that will have a damaging effect on Americans -- young and old, rural and urban. Let me give you a few examples of what life will be like when that sequester hits. Approximately a million children would not be vaccinated for polio, measles, and rubella. Pell grants for over a million college students would be eliminated outright. Here at O'Hare Airport, flights will be cancelled -- in fact, each day, up to 58 arrivals and departures would be cancelled per hour -- because there wouldn't be enough air traffic controllers to ensure safe operations.

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At no time in post-war history has a strong and economically healthy America been more important. And we all know who is helping keep America strong half-way around the world: those brave soldiers who left their spouses and children to serve on the front lines in the Persian Gulf. \\\ They are some of America's finest men and women. And we're proud of all of them. \\\

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# **CITIZENS AGAINST GOVERNMENT WASTE**

# **ISSUE BRIEF**

Issue Brief No. 1

## **CONGRESSIONAL DISREGARD OF GAO RECOMMENDATIONS COSTS TAXPAYERS BILLIONS**

BY

MILTON ZALL

September 26, 1990

1301 Connecticut Avenue, N.W. • Suite 400 • Washington, D.C. 20036

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*Note: Nothing written here is to be construed as necessarily reflecting the views of CAGW or as an attempt to aid or hinder the passage of any bill before Congress.*

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Citizens Against Government Waste (CAGW) is a 350,000 member, non-partisan, nonprofit organization which educates the American people about waste, mismanagement and inefficiency in the federal government.

## CONGRESSIONAL DISREGARD FOR GAO RECOMMENDATIONS COSTS TAXPAYERS BILLIONS

### I. SUMMARY

Congressional failure to enact legislation recommended by the General Accounting Office is costing taxpayers at least \$10.1 billion annually at a time when tax increases are being seriously considered to reduce the mounting federal budget deficit. Included in the \$10.1 billion is:

- o unenacted legislation to reduce U.S. government losses on defaulted Farmers Home Administration loans (\$2.6 billion);
- o unenacted legislation to facilitate the sharing of Veterans Administration and Department of Defense Medical resources (\$2 billion); and
- o unenacted legislation to limit uncontrolled U.S. government agency borrowing authority (\$1.2 billion).

### II. BACKGROUND

The United States General Accounting Office (GAO), the audit and investigative arm of Congress, conducts audits and reviews at Congress' behest to determine whether federal departments, agencies, and programs are working as intended. When GAO completes an audit or review, it issues a report detailing its findings and recommendations. GAO recommendations are intended to improve the operational efficiency and effectiveness of government programs and reduce their cost to the American taxpayer. Most of GAO's recommendations are directed at Executive Branch departments and agencies but some are directed at Congress.

In the overwhelming majority of cases, agencies concur with GAO's findings and recommendations and agree to take the corrective actions recommended by GAO. Periodically, GAO follows up with individual departments and agencies to determine whether progress has been made to implement its recommendations. As recommendations are implemented, GAO drops these recommendations from its list of pending or "open" recommendations. The longer agencies take to implement GAO's recommendations, the longer it takes to achieve the savings that these recommendations are intended to achieve.

Each year, GAO issues a report summarizing all findings and open recommendations for which satisfactory

corrective actions have not yet been completed. As of November 30, 1989, GAO reported that there were a total of 1,595 open recommendations that still had not been acted upon. To list all these open findings and recommendations required a 550 page report. A GAO official told us that GAO drops open recommendations when they become four years old. GAO was unable to tell us how many open recommendations have been dropped.

### III. THE PROBLEMS

It is well known that taxpayers incur billions of dollars in unnecessary costs because of government waste, fraud, abuse, mismanagement, and inattentiveness to GAO recommendations. What is not as well known is that Congress is frequently unresponsive to recommendations made by GAO in the course of their review of federal departments and agencies. As of November 30, 1989, there were 102 open recommendations that Congress had failed to act upon. Of these recommendations, we have detailed 15. Had Congress acted upon these 15 recommendations and enacted legislation in accordance with GAO's recommendations, the annual savings to taxpayers would be approximately \$10.1 billion, which include imputed interest costs of \$800 million. Congress' failure to heed the recommendations of its own audit and its investigative agency indicates a flagrant disregard of taxpayer concerns. It must be stopped.

What follows is a survey of 15 of 102 open recommendations made by GAO to Congress which, if enacted, would save taxpayers \$10.1 billion annually. These 15 recommendations were made during 1987, 1988 and 1989 and were selected because the estimated cost to taxpayers of congressional inaction was readily quantifiable. Our estimates of the annual cost to taxpayers of Congressional inaction is based on official GAO estimates. In a few instances, when GAO did not issue official estimates, we conservatively estimated that 10% of current program costs or identified waste could be reduced if Congress enacted the legislation recommended by GAO. Very few of the 15 GAO recommendations that are detailed in the remainder of this report are complicated or controversial. Most of them are straightforward proposals for saving taxpayers billions of dollars. Why Congress has failed to act thus far is unclear. What is clear is that each day's delay costs taxpayers more than \$25 million.

#### 1. U.S. Government Farm Loans Have Become a Source of Subsidized Credit (RCED-89-9).

The Farmers Home Administration (FmHA), an agency of the United States Department of Agriculture, is the lender of

last resort to financially troubled farmers who cannot get credit elsewhere. The FmHA outstanding farm loan portfolio increased from \$5.1 billion in 1976 to \$26.2 billion in 1987. Faced with difficult economic conditions, more and more family farmers have defaulted on their FmHA loans.

In making its loan decisions, GAO found that FmHA often relies on overly optimistic financial data and unreliable cash flow projections that are used to determine a borrower's credit-worthiness. As a result, borrowers often cannot make scheduled payments and require extensive FmHA loan-servicing actions such as extended repayment periods. These actions may help temporarily but often result in a heavier debt burden for the borrower, thereby reducing the borrower's equity and weakening the borrower's financial condition in the long run. Such practices expose the government to significant potential losses. GAO estimated government losses in fiscal year 1990 would amount to \$8.7 billion and this estimate could worsen if agricultural market conditions deteriorate.

In January of 1987, FmHA proposed revised lending criteria to improve its loan decisions but withdrew its proposals after Congress expressed concern that many borrowers would become ineligible for further financial assistance. Legislation enacted in 1987 directed FmHA to loan additional money to farmers without requiring them to demonstrate a capability to repay prior loans. GAO has recommended that Congress reassess the FmHA farm loan program to determine whether the continuation and debt restructuring policies which are presently being employed are the best means to assist heavily indebted farmers and their communities.

GAO issued report RCED-89-9 in February 1989.

Thus far, Congress has failed to act upon GAO's recommendations.

Estimated annual cost to taxpayers of Congressional inaction: \$2.6 billion.

2. Veterans Administration/Department of Defense Health Care: Opportunities to Increase the Sharing of Medical Resources (HRD-88-51).

In 1982, Congress enacted the Veterans Administration and Department of Defense Health Resources Sharing and Emergency Operations Act (Public Law 97-174). A principal objective of this legislation is the promotion of greater sharing of health care resources between the Veterans Administration (VA) and the Department of Defense (DOD).

Since the VA and DOD each provide health care directly to eligible beneficiaries through separate systems of hospitals and clinics, sharing of excess capacity amongst the two systems should produce savings to the government. During fiscal year 1987 the two systems had a combined budget of nearly \$20 billion. In addition, both systems also paid civilian sources to provide medical care to beneficiaries at a combined annual payment rate in excess of \$2 billion. Most of these payments were made by DOD's Civilian Health and Medical Program of the Uniformed Services (CHAMPUS).

In 1987 and 1988, GAO reviewed the VA and DOD implementation of PL 97-174 and found that certain provisions of the law preclude VA from treating dependents of active duty and retired members of the uniformed services under VA/DOD sharing agreements. Although GAO could not make a precise estimate of the potential cost savings that would derive from greater sharing of DOD and VA resources, even a modest 10% saving would produce a reduction in government health care costs in excess of \$2 billion annually.

To achieve such savings, GAO recommended that Congress enact legislation authorizing VA to treat dependents of active duty and retired members of the Uniformed Services under a VA/DOD sharing agreement on a space available basis and amend the National Defense Authorization Act to authorize the military services to use CHAMPUS funds to purchase care from VA medical centers when it is cost-effective to do so.

GAO issued report HRD-88-15 in March 1988.

Despite the fact that DOD concurred in the two recommendations made by GAO, Congress has thus far failed to enact implementing legislation.

Estimated annual cost to taxpayers of Congressional inaction: \$2 billion.

3. Limiting U.S. Government Agency Borrowing Authority (AFMD-89-4).

U.S. government agency borrowing authority is statutory authority that permits federal agencies to incur obligations and make payments for specific purposes out of borrowed monies. It is a form of financing that is relatively uncontrolled by the Congress because it is available without annual appropriation action. From fiscal years 1978 through 1987, federal agencies used \$353 billion in borrowing authority to obtain funds in advance of appropriations.

Thirty-seven budget accounts administered by 19 agencies have authority to borrow from the Treasury Department

or the public. Examples of accounts with such borrowing authority include the U.S. Postal Service, Rural Telephone Bank, and Government National Mortgage Association (GNMA).

The \$353 billion in borrowings which occurred between fiscal year 1978 and 1987 represents 4% of the federal government's total budget authority for that period. Over that same period, agencies' outstanding debt with the public and the Treasury Department increased from \$76 billion to \$195 billion, a net increase of \$119 billion. This increase occurred because agencies with borrowing authority often used new borrowings to repay their debt and borrowed more than they repaid. When agencies repaid debt with funds from other than new borrowings, they often repaid with appropriations rather than collections from program users, as was originally intended.

In the aggregate, government agencies are borrowing more than they repay. In the period between fiscal year 1978 through 1987, only 18% of the amount repaid to the Treasury Department was derived from collections. The remaining 82% of repayments came from new borrowings, appropriations to reduce debt or forgiveness of debt. During the 10 year period studied by GAO, agencies have been financing a large portion of their program expenses with debt incurred through authority to borrow. Although some agencies have reduced their debt, most of the debt reduction during the past 10 years can be attributed to appropriations or debt forgiveness. Less than half the debt reduction from fiscal year '78 to '87 came from program revenues, e.g., collections.

When borrowing is not fully repaid with collections, the nature of an agency's financing is misrepresented and the ability of Congress to make informed budgetary decisions is decreased. Many programs that have authority to borrow do not generate enough revenue to repay their debt. Calling the financing for these accounts "authority to borrow" is misleading because it suggests that there will be collections to repay the debt. This questionable accounting practice can disguise the true extent of program costs and impair Congress' ability to make informed decisions on the allocation of budget resources.

GAO has recommended that Congress provide borrowing authority only for accounts that will be able to repay their debt with collections, limit the number of years that accounts can use authority to borrow without renewed Congressional approval, and limit the amount of debt they can accumulate.

GAO issued report AFMD-89-4 in September 1989.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$1.2 billion.

4. Action Needed to Revitalize the Department of Energy's Uranium Enrichment Program (RCED-88-18).

In 1969, the federal government began enriching uranium for the growing commercial nuclear power industry in order to promote national energy security goals and establish a stable domestic supply, while recovering government costs over a reasonable period of time. Uranium enrichment refers to the process that prepares uranium ore for use as nuclear reactor fuel. In the early '80s, the Department of Energy's (DOE) sales did not reach expected levels because the growth in demand for nuclear power slowed drastically. Further, foreign competitors had taken over almost half of DOE's once exclusively held market. As of the end of 1986, unrecovered government costs of the Uranium Enrichment Program (UEP) totaled \$8.8 billion, with imputed interest costs approaching \$1 billion annually.

In order to place the UEP on firmer financial footing, GAO recommended that Congress enact legislation to: (1) define a reasonable amount of costs the program must recover; (2) provide the program with sufficient budget and management flexibility to ensure that optimum production schedules are followed and long-term customer commitments are not compromised; (3) allow DOE sufficient flexibility in setting its pricing strategy to allow it to meet market competition; and (4) require DOE to include future decontamination and decommissioning costs in its base of costs to be recovered.

GAO issued report RCED-88-18 in October 1987.

Congress has thus far failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$1 billion.

5. Reducing Medicare Indirect Medical Education Payments (HRD-89-33).

In fiscal year 1986, Medicare payments to hospitals for in-patient hospital services totaled \$45.6 billion. This included prospective payment system (PPS) payments to teaching hospitals for their operating costs and separate payments for their capital costs. The PPS provides teaching hospitals with extra payments as compensation for higher patient care costs associated with providing graduate medical education. In fiscal year 1986, additional payments by Medicare to teaching hospitals amounted to \$2.1 billion.

Medicare's contribution compensates teaching hospitals on a per-resident basis for its share of the direct cost of providing medical education. Medicare's contribution adjustment is based on the number of interns and residents per hospital bed (intern-to-bed ratio) and a statistically estimated adjustment factor representing the incremental patient care cost of providing graduate medical education. Legislation enacted in 1988 sets the adjustment factor at 7.65% for fiscal years 1989-95 and at 8.29% beginning in fiscal year 1996.

GAO has determined that distortions and inaccuracies in the calculations used to arrive at the adjustment factors have resulted in a 50% overstatement of the program adjustment factor. Accordingly, GAO has recommended that Congress reduce the adjustment factor to its proper level. The Department of Health and Human Services agreed with GAO's principal finding that the indirect medical education adjustment payment should be lowered. GAO issued report HRD-89-33 in January 1989.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$700 million.

6. Reducing Medicare Payments for Hospital Costs That Should be Paid By Private Insurers (HRD-87-43).

Under existing law, if a Medicare beneficiary is also entitled to health insurance benefits under an employee group insurance plan, workman's compensation or an accident insurance policy, e.g., automobile liability coverage, the other insurer must assume primary responsibility for hospital costs incurred by the insured. Medicare is only responsible for paying what remains due after primary coverage has been exhausted.

In August of 1985, GAO analyzed more than 3,000 hospital claims paid by Medicare to assess the degree to which hospitals and "intermediaries" i.e., insurance companies who contract to process hospital claims on Medicare's behalf, were identifying and billing primary insurers. GAO also sent questionnaires to beneficiaries to detect cases where other insurance was available and should have paid ahead of Medicare.

For calendar year 1985, GAO estimated that Medicare paid at least \$527 million dollars in hospital costs that should have been paid by primary insurers. Accordingly, GAO recommended that the Internal Revenue Code be amended to deny

employers a deduction for health insurance premiums paid on behalf of employees if the health insurance policy does not meet the requirement of the Medicare secondary payer provisions for those over age 65. In 1981, Congress enacted similar legislation to ensure compliance with the requirement that employers provide primary health insurance coverage for beneficiaries under age 65 who have kidney failure or are disabled.

Despite the existence of this precedent, Congress has thus far failed to enact legislation to implement GAO's recommendations. GAO issued report HRD-87-43 in January 1987.

Estimated annual cost to taxpayers of Congressional inaction: \$527 million.

7. Recovering Medicaid Costs from the Estates of Nursing Home Residents (HRD-89-56).

Under the Medicaid program, a Medicaid applicant's eligibility is not affected by his ownership of a home. The Social Security Act prohibits states from imposing liens against a Medicaid recipient prior to his death for Medicaid claims correctly paid on the recipient's behalf. The law does however, permit states to recover Medicaid funds from the estate of recipients age 65 or over after the death of the recipient and the surviving spouse if there are no surviving children who are under age 21, blind or disabled.

To assess the extent and effectiveness of state efforts to reduce Medicaid program costs by recovering all or part of the costs of nursing home care paid by Medicaid from the estates of deceased Medicaid residents or their spouses, GAO reviewed Medicaid applications for randomly selected nursing home residents in eight states. GAO found that most states did not have a state recovery program and that approximately 14% of Medicaid nursing home residents in the eight states reviewed owned a home with an average value of approximately \$31,000. Of the eight states reviewed, only one recovered Medicaid nursing home costs from the estates of Medicaid recipients and their spouses. Six of the states had no estate recovery program and one state had a recovery program but was not recovering from the estates of surviving spouses.

By establishing an estate recovery programs in the six states that did not have one, GAO estimates that the six states could defray about \$85 million of the estimated \$125 million in Medicaid nursing home payments they will incur for recipients owning a home. In addition, the seventh state could recover an additional \$11 million if it recovered costs from surviving spouses' estates.

GAO has recommended that Congress make mandatory the establishment of programs to recover the cost of Medicaid assistance provided to nursing home residents from either their estate or the estate of their surviving spouse.

GAO issued report HRD-89-56 in March 1989.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$500 million.

8. Performing Independent Audits of Banks to Strengthen Bank Internal Controls and Prevent Failures (AFMD-89-25).

In 1987, 184 commercial banks failed at a cost to American taxpayers of \$1.8 billion. The \$1.8 billion was paid by the Federal Deposit Insurance Corporation (FDIC), the federal agency that insures investor deposits. FDIC regulators have identified serious internal control weaknesses as being a significant contributing factor to virtually all of the 184 bank failures. Although annual independent audits are an effective means to detect internal control weaknesses in banks, most insured banks are under no legal or regulatory audit requirement. Only about one-third of the banks that failed in 1987 had audits by independent public accountants.

GAO has recommended that Congress require as a condition for federal deposit insurance that each insured bank: (1) have an annual independent audit; and (2) provide federal regulators with management and auditor reports on the bank's internal controls and compliance with laws and regulations.

Although the FDIC, the Board of Governors of the Federal Reserve System and the Comptroller of the Currency concurred with GAO's findings and conclusions, they stated that their current policy, which is to strongly encourage, rather than require, independent audits, is sufficient. The regulatory agencies contend that most large banks are audited and that the cost of an annual audit for small banks could be burdensome. The position of the regulators is somewhat equivocal. GAO's position is much clearer. GAO believes an annual independent audit should be considered a necessary cost of operating a bank in a safe and sound manner.

GAO issued report AFMD-89-25 in May 1989.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$180 million.

9. Reducing Veterans Administration Pension Overpayments by Verifying Pensioners' Income Against IRS Tax Data (HRD-88-24).

The Veterans Administration (VA) pays about \$4 billion in pension payments to 1.6 million individuals each year. VA pension eligibility and payment amounts are dependent upon beneficiaries' income, and VA relies on beneficiaries' self-reporting for this data.

GAO reviewed payments made to VA pension beneficiaries in 1984 to determine whether the amounts paid were correct and found that nearly \$1 billion more in beneficiary income was recorded in IRS tax data files for 1984 than was reported to the VA that year. By not including this amount in its pension calculations, VA made overpayments of \$182.5 million to nearly 149,000 beneficiaries.

GAO recommended that Congress amend the Internal Revenue Code to allow VA to access IRS tax data files to verify income information provided to the VA by pension beneficiaries and prevent improper payments. VA agreed that it needed a mechanism for verifying beneficiaries' self-reported income.

GAO issue report HRD-88-24 in March 1988.

Congress has thus far not amended the Internal Revenue Code to permit VA to obtain the information needed to monitor beneficiary self-reported income.

Estimated annual cost to taxpayers of Congressional inaction: \$157 million.

10. Reducing the Costs of Defaulted Federally Guaranteed Student Loans (HRD-87-76).

The federal government's Guaranteed Student Loan (GSL) program provides loans to students seeking post-secondary education. The GSL program is administered at the state level by 58 state and private non-profit guarantee agencies who in turn are reinsured by the Department of Education (DOE). When a student fails to repay his loan, the guarantee agency repays the private lender and DOE reimburses the guarantee agency. The agency then attempts to collect from the student, and if it is successful, it retains a portion of the collection proceeds to defray its collection costs and submits the remainder to DOE. In 1986, \$1.3 billion of guaranteed student loans were in default.

During the course of a review of the GSL program, GAO noted that when a borrower defaults on his loan, the original subsidized loan interest rate of approximately 8% remains the same. Existing law does not provide for any increase in a borrower's interest rate upon default. GAO recommended that Congress amend the Higher Education Act to require borrowers' promissory notes to specify that upon default, the interest rate will change to a rate of 12%, or higher if existing state law permits. In GAO's view, if borrowers know that their loan interest rate will increase from 8% to 12% upon default, they will be less likely to default on their loan.

GAO issued report HRD-87-76 in September 1987.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$130 million.

11. Improving IRS' Capability to Assess Penalties Against Abusive Tax Shelter Promoters (GGD-89-69).

In 1982 and 1984, Congress passed legislation authorizing IRS to assess penalties against those who: (1) organize, promote or sell abusive tax shelters; (2) aid and abet others in the understatement of their tax liability; and (3) do not register their shelters with IRS or register late. Under present legislation, promoters of abusive tax shelters can retain as much as 80% of the shelter's gross income, after paying the penalty for promoting an abusive tax shelter, because the law limits the penalty for promoting such shelters to the greater of \$1,000 or 20% of gross income derived from the shelter.

A GAO review of the effectiveness of IRS efforts to carry out the provisions of the legislation enacted by Congress found that the maximum penalty the IRS may levy (20% of gross income) did not significantly reduce the financial incentives for organizing, promoting and selling abusive shelters. In addition, the financial disincentive of imposing a penalty on those who aid and abet others in the understatement of their tax liability has been minimized because IRS has found it difficult to develop the level of proof presently required by law.

GAO reviewed 28 penalty cases in three IRS districts and found that IRS had assessed penalties against promoters in 18 of these cases. In all 18 cases, the promoter was able to retain a substantial portion of gross income derived from the sale of abusive tax shelters. In nine of the 18 cases for

which gross income data was available in the case file, the promoters collectively retained about \$54 million of gross income after penalties. If Congress were to enact legislation increasing the penalty rate from 20% of gross income to 100% of gross income, the \$54 million retained by the promoters could have been collected by the IRS. In addition, the higher penalty would serve as a more effective deterrent of the sale of abusive tax shelters, yielding additional savings to the government by reducing improper tax deductions.

GAO also found that the IRS had difficulty in prosecuting certain cases because the IRS had to show that a promoter "knowingly" aided and abetted in the understatement of another person's tax liability. If this criteria were eased, IRS could have assessed penalties amounting to about \$3 million in the 13 cases reviewed by GAO. Accordingly, GAO recommended that Congress modify the Internal Revenue Code to: (1) permit a significant increase in penalties that can be assessed against parties involved in the promotion or sale of abusive tax shelters; and (2) modify section 6701 of the Internal Revenue Code to reduce the level of proof required for aiding and abetting the understatement of one's tax liability from "knowingly" to "knows or reasonably should have known that the investor would understate his tax liability".

GAO issued report GGD-88-69 in July 1988.

Congress has thus far failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$125 million.

12. Reducing Overpayments to Lenders of Interest Due on Guaranteed Student Loans (HRD-88-72).

In conjunction with its Guaranteed Student Loan (GSL) program, the Department of Education (DOE) paid lenders \$2.4 billion in interest subsidies during 1986 on \$39 billion of outstanding guaranteed student loans. These subsidies include all interest on loans while students are in school or during a grace period after they leave school, and a smaller subsidy after the students begin repaying their loans. The subsidies are intended to give lenders a near market rate of return on their loans, while students pay below market interest rates. Lenders submit quarterly billing statements for their interest subsidy payments and DOE pays lenders with minimal verification of their billing calculations.

GAO reviewed the accounts of 16 large lenders comprising 10.8% of total GSLs outstanding to determine: (1)

the extent of errors lenders made in their billing statements; and (2) the cost of these errors in federal government overpayments to lenders. GAO found that all 16 lenders studied made errors in their billings -- 18% of billings were in error or lacked adequate documentation to support the amount billed. GAO estimates that DOE overpaid these lenders approximately \$1.8 million for the quarter ending September 30, 1985. If these results were projected on an annual basis, overpayments to the 16 lenders would amount to approximately \$7.2 million per year. If other lenders make errors in their billings to a similar degree, the total cost to the federal government from such erroneous billings is approximately \$70 million a year.

To address this problem, GAO recommended that Congress enact legislation to authorize DOE to assess lenders interest on lender billing errors. GAO also recommended that Congress amend the Higher Education Act to require lenders to: (1) specify to their independent auditor that the verification of loan accounts and interest and special allowance billing should be included in periodic independent financial audits; and (2) provide that errors identified by independent audits be promptly reported to DOE and the guarantee agency.

GAO issued report HRD-88-72 in August 1988.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$70 million.

13. Recovering Unreported U.S. Savings Bond Holdings from Medicaid Beneficiaries (HRD-89-43).

Medicaid is the federally aided, state administered, medical assistance program for needy people. Medicaid beneficiaries are required to turn over to the federal government any U.S. savings bond holdings in excess of \$2,000. In a review conducted by GAO of Medicaid recipients in Massachusetts who were nursing home residents during 1984, GAO determined that these Medicaid recipients had outstanding bonds worth \$1.5 million that should have been turned over to the federal government. Medicaid officials were unaware of these bond holdings because Medicaid recipients did not disclose their ownership and state Medicaid authorities do not have access to the Department of Treasury's savings bond file to verify individual Medicaid applicants' and recipients' bond holdings or redemptions.

GAO has recommended that Congress enact legislation that would provide states with access to data files maintained by Treasury on U.S. savings bond holdings and redemptions.

GAO issued report HRD-89-43 in January 1989.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$50 million.

14. Eliminating Premium Taxes Paid by the Federal Health Benefits Program (GGD-89-102).

The federal government operates a Federal Employee Health Benefits Program (FEHBP) that provides health insurance benefits to federal employees. The health insurance benefit plans available to federal employees are underwritten by private health insurance carriers. In 1987, 22 fee-for-service plans charged the FEHBP for \$44 million in premium taxes imposed by counties, states and municipalities. States, counties, and municipalities tax premium income received by insurance underwriters. Under FEHBP regulations, premium taxes paid by carriers are allowable plan expenses that are chargeable to the FEHBP. These taxes are included in each plan's premium structure and are passed on to enrollees and the federal government.

In 1980, Congress exempted federal employee group life insurance (FEGLI) premiums from similar premium-based taxes because Congress considered the FEGLI program to be self-insured and states, counties and municipalities do not tax self-insured programs.

Since the FEHBP and the FEGLI operate in similar fashion, GAO has recommended that Congress enact legislation to exempt the FEHBP from premium taxes. GAO's determination that the FEHBP is a self-insured program is based on the fact that the risk of loss to fee-for-service insurance plan carriers is minimal. Plans with cumulative operational losses adjust premiums upward to recoup their losses and plans receive a separately negotiated profit for administering the plan regardless of whether there were operating gains or losses in any particular year. Only if a plan were to leave the FEHBP, would it be liable for losses in the year that the plan left the program. In the 30 year history of the FEHBP, there has only been one fee-for-service program which terminated in a loss position of \$61,000.

GAO issued report GGD-89-102 in August 1989.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$44 million.

15. Changing the Mining Law of 1872 to Preclude the Loss of Valuable Public Lands (RCED-89-72).

The Mining Law of 1872 was enacted to promote exploration and development of domestic mineral resources of the western United States. It permits U.S. citizens and businesses to freely prospect for hard rock minerals such as gold, silver, lead, iron, and copper on most federal lands. If a valuable deposit is discovered, citizens can file a patent claim, giving them the right to use the land for mining activities and sell the minerals extracted without having to pay the federal government any fees or royalties. In exchange for a patent, claimholders must perform at least \$100 worth of drilling, excavating or other development-related work annually. Claimants desiring to acquire all rights and interests associated with economically-minable claims can obtain title to both the land and the minerals by patenting them for \$2.50 to \$5.00 an acre, about what western grazing and farm lands were worth in 1872.

A GAO study found that the Mining Law's patent provisions and annual work requirements do not ensure that mineral claims will be developed. Instead, escalating land prices, primarily near expanding communities, resort areas, and tourist attractions, have made the Act's provisions an attractive means of acquiring title to valuable government-owned land for non-mining purposes. Since 1970, the government has received less than \$4,500 for patents issued on land with an estimated worth of between \$13.8 million and \$47.9 million dollars. As of October 1987, 265 patent applications were pending for more than 80,000 acres of public land. If the federal government patented this land, it would receive about \$16,000 for land with an appraised value of between \$14.4 and \$47.1 million. In addition, the federal government does not collect revenue from the sale of hard rock minerals found on public land and loses the opportunity to do so when public lands pass into private ownership.

GAO has concluded that eliminating the patent provisions of the Mining Law of 1872 would best serve the government's interest. Selling public land valued at up to \$200,000 an acre for a nominal \$2.50 or \$5.00 an acre is not fulfilling the federal government's fiduciary responsibility.

GAO issued report RCED-89-72 in March 1989.

Thus far, Congress has failed to enact legislation as recommended by GAO.

Estimated annual cost to taxpayers of Congressional inaction: \$20 million.

#### IV. CONCLUSION

Congressional failure to enact 15 of 102 open legislative recommendations made by GAO during 1987-89 is costing taxpayers at least \$9.3 billion annually. The 15 open recommendations are:

	<u>Recommendation</u>	<u>Annual Cost to Taxpayers (\$ Millions)</u>
1.	Reducing Government Losses on Defaulted Farmers Home Administration Loans	2,600
2.	Sharing VA/DOD Medical Resources	2,000
3.	Limiting Uncontrolled Agency Borrowing Authority	1,200
4.	Revitalizing DOE's Uranium Enrichment Program	1,000
5.	Reducing Medicare Indirect Medical Indirect Medical Education Payments	700
6.	Reducing Medicare Payments for Hospital Costs that Should Be Paid by Private Insurers	527
7.	Recovering Medicaid Costs from Estates of Nursing Home Residents	500
8.	Performing Independent Audits to Strengthen Internal Controls and Prevent Failures	180
9.	Reducing VA Pension Overpayments	157
10.	Reducing Cost of Defaulted Federally Guaranteed Student Loans	130
11.	Improving IRS' Capability to Assess Penalties against Abusive Tax Shelter Promoters	125
12.	Reducing Interest Overpayments on Guaranteed Student Loans	70
13.	Recovering Unreported U.S. Savings Bond Holdings from Medicare Beneficiaries	50

14.	Eliminating Premium Taxes Paid by Federal Health Benefits Program	44
15.	Changing 1872 Mining Law to Preclude Loss of Valuable Public Lands	20
	<u>Subtotal</u>	9,300
	<u>Imputed Interest</u>	800
	<u>Grand Total</u>	10,100

Implementation of the fifteen recommendations surveyed here would enable Congress to reduce the federal deficit by more than \$10 billion a year without raising taxes or impairing essential government services. Yet Congress continues to ignore the recommendations of its own audit and investigative agency. Despite all the public handwringing about the deficit problem, Congress continues to turn a blind eye to the pervasive, deeply entrenched, and truly critical problem of government waste. Congress, for example, has yet to consider seriously the \$60 billion in annual savings identified by another of its agencies, the Congressional Budget Office (CBO). Perhaps GAO should investigate how much money GAO and CBO spend to produce reports, at the behest of Congress, that Congress then disregards.

Why has Congress failed to enact legislation, recommended by its own agencies, that would improve the efficiency of federal programs and save taxpayers money? Why is Congress considering new taxes when GAO has not only identified untold billions of dollars in wasteful spending but published hundreds of useful proposals for reducing inefficiency and waste?

Part of the answer is that up to now, the problem of government waste has not been a major theme of public discussion and debate. But this situation is changing. The HUD scandal, multi-billion dollar cost overruns in defense and space programs, the failures of public education and federal welfare programs, military procurement scandals, the abuse of the Social Security Trust Fund, chronic federal deficits, and, above all, the Savings and Loan debacle are having a profound effect on public opinion. More and more taxpayers are coming to believe that the politicians in Washington simply don't care about America's economic and financial future.

In short, government waste has become a national scandal, and a growing number of taxpayers view arrogant

incumbency as the root of the problem. In an April 1990 poll conducted by the Wirthlin Group, taxpayers were given a choice as to how they would reduce the budget deficit. Among four options, the results were: eliminate government waste, 64 percent; cut defense spending, 27 percent; cut domestic programs, 4 percent; and raise taxes, 2 percent. Even more telling, in a follow-up poll conducted by the Wirthlin Group in May, 54 percent of respondents agreed with the following statement: "If a tax increase is passed by Congress and my Congressman votes for it, then this fact alone is enough to make me vote against him."

The message for Congress is clear. Taxpayers are fed up. Those members of Congress who continue to ignore the waste problem do so at their peril.

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**CITIZENS AGAINST  
GOVERNMENT WASTE**

ISSUE  
**BRIEF**

Issue Brief No. 2

THE FEDERAL FARM MESS

BY

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September 26, 1990

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*Note: Nothing written here is to be construed as necessarily reflecting the views of CAGW or as an attempt to aid or hinder the passage of any bill before Congress.*

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## THE FEDERAL FARM MESS

"Through subsidies, price supports, import barriers, and countless regulations, the Department of Agriculture continues to try to manage half of U.S. farming, with the predictable result of staggering waste and inefficiency of almost Soviet proportions. If we have reached the end of history with the vindication of the free economy, the USDA has not yet heard the word." Representative Dick Armey (R.-Tex.), "Moscow on the Mississippi," in Policy Review.

In 1990, on the eve of congressional passage of another in a series of "five-year plans" governing U.S. agriculture, a number of conservative Republicans and liberal Democrats joined together in a coalition to seriously question the basis of the government's farm policy. These legislators identified some of the more egregious programs in the federal budget and designed a campaign to force reforms that would return billions of dollars to the taxpayers and save consumers more billions in artificially inflated prices for certain commodities.

Given the complexity of the various farm programs and the vested interests that have protected them for the past fifty years, the attempt to reform U.S. farm policy was a most ambitious undertaking. These congressmen attempted not only to curtail one area of the federal budget that has proven most resistant to reform, but, given its recent history, represents spending that truly can be described as runaway.

How wasteful and inefficient is the current system? Consider the following measurements, as made by some of the principal experts in the United States on the farm program.

◆ "Under the current farm law, passed in 1985, the Department of Agriculture has paid dairy farmers to kill 1.6 million cows and take five-year vacations from farming. It has enforced regulations that have led to the squandering of 3 billion oranges, 2 billion lemons, and hundreds of millions of pounds of nuts and raisins. It has rewarded crop farmers for leaving idle 61 million acres of farmland -- an area equal to all the territory of Ohio and Indiana, and half of Illinois. For these dubious contributions to American competitiveness, the USDA has charged the taxpayers about \$20 billion a year and forced consumers to pay \$10 billion a year in higher food costs."<sup>1</sup>

◆ "Farm subsidies are the equivalent of giving every full-time subsidized farmer two new Mercedes Benz automobiles each year. Annual subsidies for each dairy cow in the United States exceed the per capita income for half the population of the world. With the \$260

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<sup>1</sup> Dick Armey, "Moscow on the Mississippi," Policy Review, (Winter 1990) at 24.

billion that the government and consumers have spent on farm subsidies since 1980, Uncle Sam could have bought every farm, barn, and tractor in 33 states. The average American head of household worked almost one week a year in 1986 and 1987 simply to pay for welfare for fewer than a million farmers."<sup>2</sup>

◆ "A lot of money spent in the names of tillers actually ends up in the pockets of various hangers-on. The U.S. Department of Agriculture pays generous salaries and benefits to 120,000 full-time employees (there are only about 500,000 full-time farmers in the country). The department's annual budget was \$51 billion last year -- more than the total net income of American farmers."<sup>3</sup>

Although these observations provide only part of the picture, they are sufficient to convey a sense of the size of the problem. Considering the massive amount of money involved in these programs, it should not surprise that those who benefit from federal farm programs proved dogged in their determination not to give any ground. Thus, despite what was probably the best organized assault on the farm programs in its history and the widespread dissemination of information about their inefficiency and waste, the congressional reform coalition was unsuccessful in all of its efforts to cut agricultural expenditures.

The farm bill, passed by each house of Congress in July, 1990, has yet to go to conference. The Bush Administration should pick up where the congressional farm reform coalition left off. It should insist on spending cuts for programs and a return to market principles. The administration should communicate in no uncertain terms that the president will veto the prospective farm legislation before the House-Senate conference reconciles the 1990 five-year plan.

Evidently, a presidential veto is possible. According to news reports, Bush Administration sources have stated that a presidential veto was likely given the recommended \$54 billion budget for farm programs. It was suggested that as much as \$20 billion would have to be deleted from the bill to meet with administration approval.<sup>4</sup>

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<sup>2</sup> James Bovard, The Farm Fiasco (Institute for Contemporary Studies; 1989).

<sup>3</sup> Karl Zinsmeister, "Bitter Harvest," Reason (Nov. 1989) at 27.

<sup>4</sup> Guy Gugliotta, "House Passes Bill to Regulate Agriculture for Next Five Years," Washington Post (August 2, 1990) at A13.

## I. INTRODUCTION TO FARM PROGRAMS

"To destroy a standing crop goes against the soundest instincts of human nature."  
Secretary of Agriculture Henry Wallace, 1934.<sup>5</sup>

Many of the current farm programs originated with the New Deal. Originally, the various agricultural price support and farm incomes programs were intended to be temporary initiatives to solve short-term problems. For example, Roosevelt's Secretary of Agriculture, Henry Wallace, stated that "The present program for readjusting productive acreage to market requirements is admittedly but a temporary method of dealing with an emergency. It could not be relied upon as a permanent means of keeping farm production in line with market requirements."

However, contrary to Wallace's prediction, these programs have taken on a life of their own, having proven resistant to change even while there have been enormous changes in the farm economy in the decades since the programs' enactment. This has been the case even in the past ten years, a time of significant budget cuts.

Although other significant government programs had cost controls imposed during the Reagan Administration, spending on agriculture has remained impervious to the limitations. Indeed, in the past decade, the cost of these programs has skyrocketed. According to the *New York Times*, "So great is the subsidy momentum that American agriculture stands out as the one major domestic areas in which the legacy of Ronald Reagan's Administration is vast expansion of the Government's role rather than reduced Government involvement."<sup>6</sup>

It can be easily demonstrated that farm programs experienced the most rapid growth of any major federal spending programs. For example, in 1980, farm price supports cost the taxpayers about \$3 billion. But by 1986, the costs of these programs had grown to an unprecedented \$26 billion.

The growth of federal farm programs, and the government's inability to forecast that growth, also can be demonstrated by examining the last two farm bills. The U.S. government has institutionalized farm programs in a series of "five year plans." Thus, when the 1981 farm bill was under congressional consideration, the Agriculture Department estimated that it would cost \$12 billion over four years. In fact, it cost \$60 billion over that period. And when the 1985 farm legislation was considered, the USDA estimated that it would cost \$52 billion over five years. However, by 1990, it had already cost over \$110 billion.

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<sup>5</sup> Cited by Representative Dick Armey, "Perestroika on the Prairie," *New York Times* (March 17, 1990).

<sup>6</sup> Robert D. Hershey, "Many Interests at Stake as Farm Act Is Rewritten," *New York Times* (April 25, 1990) at A20.

The 1990 farm bill has an estimated cost of \$54 billion over the next five years. Of course, in light of the record of the past two five-year plans, the real cost can be expected to be at least twice that amount. In fact, these figures represent only the direct cost to the taxpayer. The indirect cost to the consumer adds an entirely new dimension to these programs. For example, a 1989 USDA study concluded that food prices are 12% higher than they would be without government intervention.<sup>7</sup> Moreover, it was estimated that, for 12 farm products examined in a 1990 USDA survey, federal intervention meant more than \$14 billion in higher prices for farmers in 1987.<sup>8</sup>

## II. U.S. FARM PROGRAMS

"The entire history of our farm programs is one of periodic government meddling, rule reversals, and course changes. This very changeability is one of the most damaging aspects of farm subsidies." Karl Zinsmeister

The federal programs designed to support agriculture are numerous and complex. However, most programs fall under several basic categories.

### A. PRICE SUPPORT PROGRAMS

1. Direct purchases of commodities: The U.S. government directly purchases certain commodities to support agricultural prices. It purchases any amount of the commodity offered to it at a legislatively-mandated support price. For example, milk prices are supported by such direct purchases.

2. Nonrecourse loan program: This program allows farmers to borrow a congressionally set amount per unit of the commodity which the farmer puts up as collateral for the loan. Subsequently, the farmer can choose to forfeit the crop instead of repaying the loan. The loan therefore serves as an effective "price floor" for the commodity since, if market prices fall below the loan rate, a farmer can forfeit the crop rather than selling the commodity and repaying the loan. Thus, the farmer is guaranteed that he can sell his crop at the government's price. Another advantage of the nonrecourse loan is that the program subsidizes farmers' costs because the interest rate is lower than market interest rates.

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<sup>7</sup> The poor, who spend a high percentage of their low income on food, are hurt the most by artificially high food prices. Susan Mandel, "The Hill Farm Swamp," National Review (July 23, 1990) at 19.

<sup>8</sup> James Bovard, "Bumper Crop in the Farm Bill," Washington Times (July 24, 1990) at G1.

By providing farmers with guaranteed prices at the time crops are planted, nonrecourse loans and direct purchase programs remove much of the price risk in agriculture, thus encouraging greater production. Although these programs have been called a "price floor," in practice they have usually stabilize prices well above the market price. For example, the loan rate for sugar is approximately three times the world market rate.<sup>9</sup>

One result of these price support programs is a long-run crop surplus. The surplus that ends up in the hands of the U.S. government is typically distributed through the welfare system, foreign aid programs, etc. But the government has other ways that it attempts to preclude surpluses created through these programs. These include production retirement programs. Another result is that it takes U.S. produce out of the market -- reducing U.S. exports and the competitiveness of the American farm sector.<sup>10</sup>

## B. PRODUCTION RETIREMENT PROGRAMS

Partly in response to over-production, the government created crop retirement programs. Although there are a number of programs that accomplish the objective of lowering crop production, the primary programs are those that take land out of use and those limiting directly the amount of a commodity that can be sold. These programs attempt both to limit the government's budget exposure by reducing the amount of production eligible for government support, and to raise market prices and farm income by artificially restricting the supply of the commodity.

1) Land Retirement Programs: One of the primary methods by which the federal government takes land out of production is through the Acreage Reduction Program. In order for certain farmers to receive federal farm benefits, he must first agree to take a percentage of his land out of production. Thus, farmers are rewarded for not growing crops on a portion of their acreage in order to limit production. For example, a wheat farmer might be told to leave a quarter of his land idle. In 1988, this "supply management" program removed 61 million acres from production.<sup>11</sup>

Other land retirement programs include a "paid land diversion program," in which a farmer simply is paid by the government for idling farm land; a conservation program, in which he is paid to take erosion-prone acreage out of production; and a "0/92" program in which he can get up to 92% of his federal benefits if he agrees not to plant anything at all.

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<sup>9</sup> Robert G. Chambers, "How to Wean the American Farmer from Washington," Heritage Foundation Backgrounder (No. 657; June 22, 1988) at 3.

<sup>10</sup> Cotton Program: The Marketing Loan Has Not Worked (GAO/RCED-90-170, July 1990).

<sup>11</sup> Dick Arney, "Farming for Fun and Profit," Christian Science Monitor (April 27, 1990) at 19.

However, these programs do not always accomplish their goals, i.e., reduce the production of surplus commodities. In part, this occurs because farmers will retire from production first those lands that are least productive, thereby minimizing the reduction in production.

Furthermore, there are many unintended consequences for these programs. For example, according to Representative Dick Armey, "Programs that pay farmers not to farm often devastate rural areas. The reductions hurt everyone from fertilizer companies to tractor salesmen. According to the Agriculture Department, policies to reduce acreage cost the rural economy 300,000 jobs, and cost the 'farm input' industry \$4 billion in lost sales, in 1987 alone."<sup>12</sup>

Another unintended consequence of land reduction programs is that it provides opportunities for increased overseas farm production. While U.S. land has been taken out of production, farmers in Canada, Australia, Argentina, and Europe have been expanding their operations. As the USDA has paid U.S. farmers to idle 61 million acres, foreigners have planted 70 million new acres since 1980. One farm expert observed that, "In effect, the USDA deported our farmland."<sup>13</sup>

2) Commodities Sales Limitations: Rules called marketing orders establish a central organization for farmers who are in the same business. Exempted from federal antitrust laws, participants are allowed to limit competition, fix supply, and set prices for their commodity.

An example of how marketing orders operate is the citrus industry. A few large orange growers decide how many California oranges may be released to the market. By forcing all the state's orange growers to withhold as much as two-thirds of their crops, the large producers can set the price for the rest of their fruits at a high level. If a small producer defies the large growers and tries to sell his oranges at a lower price, he is prosecuted by the federal authorities. An attempt to dispose of excess oranges can also bring prosecution. In one case, a grower tried to give away his oranges to a church helping the needy, and the government threatened to sue him for it. As Representative Dick Armey has pointed out, "In effect, the government is the enforcer of a cartel -- a miniature OPEC for oranges."

### III. THE 1990 FARM REFORM COALITION AND CONGRESSIONAL ACTION

"Our economy is not agricultural any longer. Our economy is the federal government. We no longer till in Mississippi cotton fields, but in Washington corridors and Congressional committee rooms." William Faulkner

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<sup>12</sup> Armey, "Perestroika on the Prairie," op. cit.

<sup>13</sup> Armey, "Moscow on the Mississippi," op. cit., at 27-28.

Historically, farm-state legislators have proved extremely adept at forming alliances with urban congressmen with constituents interested in benefits like food stamps and school lunches. And, given the amount of money involved in the farming industry, the farm lobby has been capable of mustering considerable clout in Washington.<sup>14</sup>

In order to oppose this system in which a small number of farmers have long exercised exceptional political power, a number of suburban Republican free traders and city-based liberal Democrats was created. The unique character of this coalition was commented upon by coalition leader Rep. Chuck Schumer (D.-Tex.): "This is the first time that a coalition from outside is going to scrutinize the farm bill." Organized by Dick Arney (R.-Tex.) and Schumer, the coalition was comprised of 11 Republicans and eight Democrats, including Barney Frank (D.-Mass.), Bill Gradison (R.-Ohio), Tom Downey (D.-N.Y.), Silvio Conte (R.-Mass.) and Andy Jacobs (D.-Ind.).<sup>15</sup>

This unprecedented attack on the farm program was predicated on two factors. First, demographic trends seemed to be working in favor of the reformers. The strength of the farm bloc seemed to be declining as rural population dwindled. According to an Agriculture Department study, only 46 of 435 congressional districts are now truly agrarian.<sup>16</sup>

Second, the Schumer-Arney strategy emphasized applying a means test to subsidy payments. The coalition offered on the House floor a series of amendments directed against the most egregious examples of waste and inequity, the programs farm-district members would have the most difficulty defending.<sup>17</sup>

Nevertheless, the congressional debate was uninspired. Defenders of the farm programs used simplistic and irrelevant arguments in order to turn back the reformist challenge. Thus, many held that the supply of agricultural goods would be jeopardized if the farm programs were changed or abolished. According to Agriculture Committee member Rep. Harold Volkmer (D.-Mo.), farm subsidies are "a small amount to pay to make sure that we continue to have an

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<sup>14</sup> For example, since 1987, the chairman of the House Agriculture Committee, Kika de la Garza (D., Tex.) has received over \$100,000 in campaign contributions and over \$20,000 in honorariums from agriculture lobbies and organizations. James Bovard, "How to Think Like a Congressman," Wall Street Journal (August 8, 1990).

<sup>15</sup> Guy Gugliotta, "Unusual House Coalition to Challenge Farm-Support Programs," Washington Post (May 20, 1990) at A4.

<sup>16</sup> Bruce Ingersoll, "Bipartisan Support Is on the Rise in Congress To Bring Perestroika to U.S. Agriculture Policy," Wall Street Journal (April 11, 1990) at A16.

<sup>17</sup> Hershey, op. cit.; and op. cit.

adequate food supply."<sup>18</sup> Cataclysmic results were hinted at by others. Rep. Bill Emerson (R.-Mo.) announced, "As the ranking member of the House Select Committee on Hunger, I take the threat of an unreliable food supply very seriously."

Rep. Charles Stenholm (D-Tex.) appealed on almost patriotic grounds: "We're the best-fed nation, with the most abundant quantity of food, we have the best quality of food supply, at the lowest cost of any country, any form of government. And yet we somehow still have some folks periodically writing that the American farmer is abusing the consumer."<sup>19</sup>

Incredibly, advocates of farm subsidies turned economic reality on its head, arguing that the reform proposals constituted central planning along the lines of Soviet-style socialism. Rep. Robin Tallon (D.-S.C.) warned, "We do not have to imagine what life would be like without a responsible farm program. We need only look to the Soviet Union where people will wait in line four hours in hopes that they can buy a small portion of beef or bread." Or consider the comments of Rep. Pat Roberts (R.-Kan.): "This effort to end participation of our most successful farmers and investors in the farm programs sounds a lot like the way the Poles and Russians organized their agricultural policy before the Berlin Wall came down."<sup>20</sup>

One would never guess from this congressional commentary that more than half of U.S. farmers grow crops that receive no federal price supports. With only about 30% of the American crop production receiving subsidies, most of the American farm economy -- including meat, eggs, vegetables, etc. -- operates according to free market principles.<sup>21</sup> In fact, the bankruptcy rate of those farmers without subsidies has actually been lower than the bankruptcy rate of farmers 'benefiting' from federal programs.

Besides the myth that farm programs are somehow responsible for America's farm bounty, another myth promoted during the congressional debate was that these programs help the family farm. However, current subsidy programs compel farmers to increase their yields rather than control costs. This gives an advantage to large, wealthy farmers who can afford the huge combines that allow them to outproduce small farmers. It is easy to demonstrate that government policies have not preserved small farmers. Between 1935 and 1989, the number of farms dropped

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<sup>18</sup> Cited by Bovard, "Bumper Crop in the Farm Bill," *op. cit.*

<sup>19</sup> Christopher Madison, "Coming a Cropper," National Journal (May 5, 1990) at 1085.

<sup>20</sup> Bovard, "How to Think Like A Congressman," *op. cit.*

<sup>21</sup> "Only about two-fifths of farm products receive substantial subsidies.... Somehow, everything else -- beef, chicken, eggs, pork and most fruits and vegetables -- gets produced, processed and delivered without subsidies." Robert J. Samuelson, "The Absurd Farm Bill," Washington Post (August 1, 1990).

from 6.8 million to 2.2 million. (That these programs only benefit a few farmers will be demonstrated when the individual programs are examined.)

Unfortunately, despite ample evidence of the inefficiency and abuse inherent in the farm programs, the reform coalition was defeated in its effort to bring economic sense to farm policy. Even some of the most trivial cutbacks were defeated by the farm lobby. An examination of some of the programs singled out for amendment by the reform coalition will be instructive concerning the nature of the waste, the potential savings, and the resilience of vested agricultural interests.

#### IV. CONGRESSIONAL SCORECARD

"Government programs are usually judged by their intentions, not their effects. Farm policy discussions usually begin and end with vague generalities and lofty rhetoric -- with heavy emphasis on how government programs should ideally operate rather than a close examination of how government programs actually work. Farm policy is the sum of individual farm programs." James Bovard, The Farm Fiasco, at 61.

##### 1. New Restrictions for Farm Payments

Background: Current law places a cap of \$50,000 on payments to farmers. However, this law is circumvented by dividing large farms among family members or by structuring the corporate organization so as to maximize payments. That the largest farmers receive much more from the federal government than the smaller farmers is easily demonstrated.

For example, according to USDA's Economic Research Service for 1988, \$1.56 billion of direct farm payments were made to farm operators with net cash incomes above \$100,000. These farmers are estimated to comprise 9% of all farmer operators. Moreover, it estimates that \$1.2 billion in direct government payments were made in 1988 to farms with sales exceeding \$500,000.<sup>22</sup>

Proposal: There were two proposals designed to deal with the abuses in the subsidies ceiling:

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<sup>22</sup> In addition, according to the government's own FY 1991 budget proposal, in 1987 30% of some 22 billion in payments went to the 4% of the farmers with average net incomes of more than \$100,000 a year. "Farm Fog," Washington Post (Feb. 16, 1990).

1) Coalition leaders Arney and Schumer introduced an amendment designed to reduce federal expenditures by limiting farm subsidies to the least needy farmers. The bill would have eliminated direct farm payments to any farmer with an adjusted gross income of more than \$100,000 a year. The legislation also would have authorized the Secretary of Agriculture to write regulations to ensure that the ceiling was not circumvented as it has in the past.<sup>23</sup>

2) Warning that abuses in the program "will continue as long as you keep these [wealthy] farmers at the public trough," Rep. Silvio Conte introduced the Fair and Reasonable Payment Limitations Act.<sup>24</sup> It would have established a uniform, \$50,000 payment limit on the various farm program payments, and eliminate loopholes that permit large farmers to double their payments. For example, cotton and rice producers presently can take advantage of standard deficiency payments of up to \$50,000 but can also pick up additional federal money by repaying government loans at rates below the government loan rate. This sort of "double-dipping," which exists throughout the subsidized commodities industry, would have been eliminated.

Savings: The reform legislation, which was defeated by Congress, would have saved about \$1 billion annually.

## 2. Peanut Program

Background: The federal government restricts market entry to the peanut growing through federal licensing, which dates back to the 1941 origins of the federal peanut program. Thus, because of these licensing procedures, there is a quota system for growing peanuts.

In addition to the quota system, the Peanut Program has a two-tier price support in which foreigners are allowed to buy U.S. peanuts at a low price, while Americans must buy them at a higher price. The purpose of the two-tier price system is to create an artificial scarcity of peanuts on the domestic market and drive up consumer food prices. Consequently, the U.S. consumer pays almost 50% more for domestic peanuts than foreigners do. Thus, the Peanut Program acts much like a cartel.

Although it is difficult to measure, the consumer overcharge is considerable. USDA

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<sup>23</sup> A note of discord was entered by agriculture expert James Bovard, who suggested that the Arney-Schumer limits likely would have been circumvented just as previous limits had been. Moreover, in light of the economic efficiency of larger farms, one result would have been to reward inefficient, smaller farmers. He did not see much to recommend that result any more than subsidizing rich farmers under the current scheme. See, James Bovard, "Welfare for Millionaire Farmers," Wall Street Journal (May 22, 1990).

<sup>24</sup> Gugliotta, "House Passes Bill to Regulate Agriculture for Next Five Years," op. cit.

conservatively estimates that the Peanut Program raises consumer prices by \$190 million annually. However, the Peanut Butter and Nut Processors Association estimates that the overcharge is \$369 million at the wholesale level.<sup>25</sup>

Proposal: Rep. Armev introduced the Peanut Program Modernization Act to rectify this situation. It would have eliminated the quota system authorized by federal law. It also would have ended the two-tier price support.

Savings: Although the direct savings to taxpayers would have been marginal, it is estimated that consumers would have saved at least \$300 million annually.

### 3. Sugar Price Supports

Background: Through a government program of nonrecourse loans, market and trade distortions have been created by the sugar program, in addition to inflating the domestic price for sugar.<sup>26</sup> Because the U.S. loan rate for sugar is three times the world market price, overproduction of sugar has occurred. Thus, even though consumption of sugar has fallen by approximately 15% in the past decade, domestic production has risen by about 23%.

Estimates vary of the cost to consumers of the sugar program. The Department of Commerce has concluded that the program costs consumers over \$3 billion annually.<sup>27</sup> More recently, the Agriculture Department estimated that the sugar program cost consumers approximately \$1.9 billion annually over the last three years.<sup>28</sup>

Proposal: Representatives Thomas Downey (D.-N.Y.) and Bill Gradison (R.-Ohio) introduced legislation that would reduce the nonrecourse loan rate for sugar from 18 to 16 cents per pound. The Bush Administration supported this legislation.

Savings: Although the consumers could save from \$2 to \$3 billion annually with the total elimination of the sugar program, the congressional reformers attempted a modest ten percent reduction. Thus, if it had passed, a savings of \$200 to \$300 million might have been realized.

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<sup>25</sup> Statement of Rep. Richard Armev, 136 Congressional Record H2486 (May 17, 1990).

<sup>26</sup> An ITC study of U.S. farm import quotas, estimating what the tariff equivalents would be of the concurrent quotas, concluded that for 1986 the sugar quota was the equivalent of a 233% tariff. James Bovard, "Bumper Crop in the Farm Bill," op. cit.

<sup>27</sup> Department of Commerce, "United States Sugar Policy: An Analysis," (April 1988).

<sup>28</sup> Department of Agriculture, "Sugar: Background for 1990 Farm Legislation."

#### 4. Targeted Export Assistance

Background: Among the farm programs, this is a relatively new program that gives money for agricultural interests to advertise overseas. The General Accounting Office has concluded that the program has not worked very well. For example, the GAO found that USDA does not have an adequate system of internal controls to effectively manage the program. TEA guidelines are not clearly understood. Minimal documentation exists on major program decisions.

Incredibly, the program pays for advertising by such major corporations as Sunkist and Dole. Yet, USDA exercises minimal oversight of those private firms and organizations promoting their own brand. (Branded promotional activities receive approximately 35% of annual TEA funding.)<sup>29</sup>

Despite these problems, the program's funding has nearly doubled in recent years. After a critical 1988 GAO report was issued, funding for the program doubled from \$110 to 200 million per year.

Proposal: Although no amendment was introduced regarding TEA, Rep. Schumer had proposed reducing the proposed TEA program budget from \$325 million to \$110 million.

Savings: \$215 million.

#### 5. Wool and Mohair

Background: The U.S. government created a program to support wool and mohair prices in the early 1950s because of the decline of the domestic sheep industry and the military requirement for wool. At that time, wool was considered a significant asset from the standpoint of national security.

In almost 40 years, the program has paid \$2 billion to about 115,000 wool producers and about 12,000 mohair producers. As is the case with other farm programs, a small group of farmers are the principal beneficiaries, with about 6,000 farmers receiving 80% of all program payments.

According to GAO studies, however, the program has only been marginally effective. U.S. wool production has continued to decline during the entire length of the program, with

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<sup>29</sup> Statement of Allan I. Mendelowitz (GAO/T-NSIAD-90-53) at 3. See, also, Agricultural Trade: Review of Targeted Export Assistance Program (GAO/NSIAD-88-183 May 28, 1988).

wool production reaching all time lows in the mid-1980s.<sup>30</sup>

A more severe indictment of the wool program is the fact that wool can no longer be justified as a strategic commodity. Furthermore, the mohair program never even had any specific objectives.

Proposal: Rep. Schumer proposed placing a cap on wool subsidies.

Savings: The GAO estimates that eliminating these programs would reduce federal spending by about \$100 million annually.

## 6. Dairy

A complex set of federal dairy policies have evolved over 60 years to support dairy prices and producers' incomes. There are two principal programs are milk marketing orders and dairy price supports.

1) Milk marketing orders regulate the pricing of milk. Production is limited by local dairy cooperatives which are allowed to form government-protected monopolies. Because competition is limited, people have no choice but to buy milk at high prices.

2) Federal dairy price supports stabilize milk prices by guaranteeing a minimum price for any amount of certain dairy products that can be produced. Because U.S. dairy prices were set above market-clearing prices for most of the 1980s, massive dairy surpluses were generated.

Moreover, government regulations effectively prohibit the shipment of milk from areas with low production costs to other areas. This created a 60-cent a gallon milk price differential between Wisconsin and Miami. And although New Zealand farmers can produce dairy products for half the price of the average U.S. dairyman, strict quotas effectively ban New Zealand milk from the U.S. market.<sup>31</sup>

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<sup>30</sup> Congressional Direction Needed on Necessity of Federal Wool Program, (GAO/CED-82-86, August 2, 1982). Even though the wool program payments helped to slow the decline in wool production, the GAO received estimates that producers receive about 75% of their sheep income from the sale of lamb. Thus, production decisions were based primarily on the profitability of the lamb market, not the wool market and the wool payments. FARM PROGRAMS: Wool and Mohair Program: Need for Program Still in Question, (GAO/RCED-90-51, March 6, 1990).

<sup>31</sup> Bovard, "Bumper Crop in the Farm Bill," op. cit.

Programs like marketing orders and price supports have contributed to milk surpluses by creating incentives to produce more milk than can be sold at market prices, which the government then buys. In the 1980s, these programs led to massive government spending. In 1979, these dairy programs cost \$241 million but, by 1983, grew to \$2.6 billion. In the 1980s some \$17 billion was spent on such programs.

Because of these surpluses, government policies during the 1980s have aimed at curbing milk production by reducing price-level supports or even paying farmers not to farm. For example, the Dairy Termination Program paid certain farmers to kill or export their herd of dairy cows and to retire from dairying for at least five years.

The Dairy Termination Program met with little success and had unintended consequences. First, those remaining in the dairy business merely increased production, thus undermining the effect of the slaughter of cows. Furthermore, the program had an unfortunate effect on the ranchers who raise beef cattle. When the government announced that it was going to have a million dairy cows killed, it was apparent that the beef market would soon be inundated with tons of additional meat. The market instantly collapsed, and cattlemen lost \$25 million within a week.

Proposal: The Government Accounting Office recommended that Congress shift toward a more market-oriented approach. It recommended a phase out of much of the milk marketing orders that encourage increases in milk production.<sup>32</sup>

Savings: The GAO believes that a market-oriented dairy industry could reduce federal spending by about \$1 billion annually.

## 7. Honey Price-Support Program

Background: The honey program was created in 1950 to stabilize prices and maintain sufficient bee populations for pollinating food and fiber crops. USDA uses nonrecourse loans to support honey prices, allowing honey producers to forfeit their honey to the government. These loans assure producers a guaranteed minimum price for the honey they produce as loan collateral.

The problematic nature of government interference with the market can be seen in the honey program of the 1980s. In the five year plan of the first Reagan Administration, the legislated price-support rate for honey resulted in a higher support price than both the import and the domestic market price. Thus, the honey farmers had an incentive to forfeit their product to the government for the artificially high price. This cost the U.S. government \$164 million between 1980 and 1983.

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<sup>32</sup> Federal Dairy Programs: Insights Into Their Past Provide Perspectives On Their Future, (GAO/RCED-90-88, Feb. 28, 1990).

Even after Congress lowered the price support rate in the 1985 five year plan, program costs remain high because there is still sufficient incentive to overproduce honey to sell the government. In part, this was due to the fact that production and production facilities had been expanded during the early 1980s. Thus, in 1988, for example, the program cost \$100 million.

Once again, a relatively few farmers reap most of the rewards of this federal farm program. About 1% of all beekeepers, most of whom are commercial producers, participate in the honey program. Furthermore, according to the GAO, the honey program is no longer needed to ensure crop pollination.

Proposal: In 1985, the GAO recommended that Congress repeal the Honey Price-Support Program.<sup>33</sup> The USDA agreed. Again, in 1990, the GAO recommended that the program be abolished, stating that "The program still serves little public purpose but to raise the income of a relatively few producers at a high cost to the public."

Savings: The GAO estimates that abolition of the program could save the taxpayer \$40 to \$100 million a year.

## 8. Other Farm Programs

There are a number of other programs that are inefficient, market-distorting, and cost the taxpayer and consumer great sums of money. For example, the Export Credit Guarantee Program's stated purpose is to encourage exports, and provides up to \$6 billion a year in loan repayment guarantees to exporters of U.S. agricultural commodities. However, defaults in the programs have caused the government to pay out almost \$3 billion, representing about 20% of approved guarantees. Very few of the loans in default have been repaid.<sup>34</sup> According to Rep. Schumer, "What is worse than simple poor record-keeping and huge losses is where the money has gone. Billions to Iraq, a nation that has gassed its own people, and the funds have been sent without the supervision of proper bank officials."

Another major program provides irrigated water subsidies to farmers in addition to crops subsidies. Some legislators wanted to eliminate this "double-dipping," and make farmers choose between the subsidies. Other programs that have received scrutiny include wetlands restoration, which involves the conversion of environmentally sensitive lands to agricultural use, and "swampbuster" programs, which have not protected wetlands.

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<sup>33</sup> Federal Price Support for Honey Should Be Phased Out, (GAO/RCED-85-107, August 1985).

<sup>34</sup> Statement of Allen I. Mendelowitz, GAO/T-NSIAD-90-53 at 14.

## V. CONCLUSION

Whether one examines the particular programs that, taken together, comprise U.S. agricultural policy, or the aggregate of all programs, it is clear that these programs are inefficient, costly, misguided, and sometimes contradictory. U.S. farm policy should be reexamined from the standpoint of free market principles and budgetary cuts made accordingly.

How much should be deleted from the proposed budget is a matter of some conjecture. The House Republican Study Group recommended \$6.9 billion in cuts from the farm programs. A source in the Bush Administration suggested that \$20 billion in cuts would have to be effected. In light of the widespread abuse of farm programs, the latter figure seems more promising as an initial target.

Unfortunately, Congress has proven itself incapable of instituting the required reforms. However, whether or not the U.S. taxpayer and consumer ever could have afforded the waste and abuse associated with these programs, they can no longer do so. And given the budgetary constraints currently facing the federal government, executive branch resolve may be sufficiently stiffened that it will use the power it possesses. The Bush Administration should either convince the House-Senate conference to make deep cuts in the farm programs, or use the veto power.

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**CITIZENS AGAINST  
GOVERNMENT WASTE**

ISSUE  
**BRIEF**

Issue Brief No. 3

THE COST OF CLEAN AIR

BY

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*Note: Nothing written here is to be construed as necessarily reflecting the views of CAGW or as an attempt to aid or hinder the passage of any bill before Congress.*

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## THE COST OF CLEAN AIR

### I. Introduction

The 1990 amendments to the Clean Air Act, the most significant environmental legislation since 1977, have been a long time coming. Although new legislation was first discussed during the Reagan Administration, it was not until June 12, 1989 that the Bush Administration proposed the first major revisions of the Clean Air Act.

The administration recommendations address a number of environmental concerns, and proposed both national permits and enforcement programs. Among the environmental problems to be curbed by the legislation are:

\* Acid Rain: In order to combat acid rain, sulfur dioxide emissions emanating from electric utilities are to be reduced by 10 million tons annually from 1980 levels. In addition, nitrogen oxide levels are to be reduced by two million tons per year.

\* Urban Air Pollution: The new legislation will establish and enforce standards for ozone and carbon monoxide to be reached in U.S. cities by the year 2000. Control measures will be imposed on factories and other stationary sources, and more restrictive emissions standards will be required for cars, trucks, and buses.

\* Air Toxics: Provisions in the proposed legislation establish a process to employ the best technology currently available to achieve an estimated near term reduction of 75 to 90 percent in toxic pollutants believed to cause cancer and other health problems.

By mid-1990, both houses of Congress had passed versions of the act, which have yet to be reconciled. However, the bill is deficient in a number of significant aspects. Provisions in the House and Senate versions of the legislation could be as much as five times as expensive as the original administration proposal. It is unclear that benefits will outweigh the direct costs of the legislation. Indeed, where estimates can be calculated, it is apparent that the direct costs will be far greater than benefits to be derived from the programs. Moreover, there are indirect costs and unintended consequences associated with these programs that have not been calculated. Finally, the proposed legislation is both complex and rigid, and will serve to further the growth of the environmental bureaucracy in the federal government. Because of concerns about the current legislation, there is a threat of a presidential veto.

### II. Major Problems with the Clean Air Act

#### A. Excessive Cost

A major criticism of the current Clean Air Act concerns its direct and indirect economic consequences. Briefly, the argument is that the costs of the legislation, with its deleterious impact

on the economy, is not offset by the benefits to the environment. This is not true of all of the provisions of the bill, which in many respects is well-balanced and features innovative, market-based solutions to environmental ills. However, besides the direct costs, among the indirect consequences of the legislation are lower productivity and consumption, loss of competitiveness, and unemployment.

The Bush Administration has stated from the beginning that any significant clean air legislation will result in economic dislocations, including reduction in real incomes and unemployment. But while the administration claims that its proposal minimize these costs and dislocations, it contends that the congressional versions of the bill will slow economic growth and prove costly to U.S. firms, workers and consumers. Indeed, a number of sections in both the House and Senate versions of the bills offer questionable environmental benefits, and are inordinately costly. An examination of the specific provisions of the clean air amendments indicates how costly the new legislation could be.

### 1) Direct Costs

i) Acid Rain Control: The goal of reducing 10 million tons per year of pollutant emissions from coal-fired electric power plants is estimated to cost from \$4 billion to \$10 billion per annum. The virtue of the approach adopted by both the Bush Administration and Congress is that power plant managers can accomplish the emissions reduction target by using any means they choose. This flexibility will allow them to determine the least expensive means, thus saving additional billions of dollars that would be passed along to consumers in higher prices for electricity. Nevertheless, the economic impact of this new law will be substantial. For instance, it has been estimated that the cost of electricity in the Middle Western states will be raised 20%.<sup>1</sup>

On the other hand, the benefits to be derived from the proposed acid rain control program are more difficult to assess. First, a recent study indicates that the dangers posed by acid rain may not be as great as originally thought. A ten-year study on acid rain, the National Acid Precipitation Program, concluded that the percentage of lakes effected were less than had been believed. Also, the fear that acid rain had a deleterious effect on agriculture produce could not be proven as its effects are primarily felt on the higher elevations of mountains in the northeastern part of the country. James Mahoney, the director of the 10 year, \$600 million study, has stated that the clean air act's acid rain control provisions would have no measurable

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<sup>1</sup> Warren Brookes, "Will Clean Air Act Be Derailed?" Washington Times (August 9, 1990) at G1. Brookes argues that the acid rain provisions will not only be extremely costly, but will actually delay development and implementation of clean coal technology as it will divert capital into trying to improve existing coal plants. Instead, Brookes advocates stringent new source performance standards and the imposition of 40 year plant life limits. Thus, the same results can be achieved within the next two decades without undue costs.

impact on the environment.<sup>2</sup> Other concerns associated with acid rain could either not be adequately assessed or were proven to be exaggerated.<sup>3</sup>

It is also believed that the reduction of power plant emissions will reduce the sulfate particles thought to be injurious to human health. Whether and the extent to which these particles are injurious to humans is a matter of some conjecture, and the lack of solid data has precluded any consensus on the particles' effect. In short, it is not known whether the benefits to be derived from the Clean Air Act's proposed controls on power plants will outweigh the costs.<sup>4</sup>

ii) Urban Air Pollution: Despite the improvement in the quality of air in U.S. cities since the first Clean Air Act, the EPA considers air quality in many cities to be deficient.<sup>5</sup> In order to further arrest the emission of smog, the Clean Air Act includes additional measures including more controls on refineries, chemical plants, and other large industrial facilities. Most notably, there will be controls on smaller businesses heretofore unaffected by urban air pollution regulations. Included are dry-cleaning plants, auto paint shops, and even bakeries.

Another important provision of the new legislation will impose new requirements on cars and small trucks. For example, because it is believed that surface ozone and carbon monoxide levels have reached crisis proportions, new tailpipe emission standards will be imposed in order to reduce volatile organic compounds (VOC) and nitrogen oxide (NOx).

However, the new standards that auto manufacturers will be required to meet can only be justified by the current smog situation in Southern California. According to Kay Jones, former senior adviser for the Council on Environmental Quality, "Except for L.A., there is no ozone crisis in the United States. It is simply untrue that hundreds of millions of Americans are exposed to high ozone levels. The ozone problem in the Los Angeles basin is the worst in the nation and completely unlike that other areas face." In fact, according to Jones, U.S. urban air quality has improved under currently-mandated catalytic technology, cutting auto emissions in half since 1970. Moreover, current trends indicate that, "The majority of U.S. cities where ozone levels now exceed federal standards will likely come into attainment within five years without additional controls.... outside of California, the health and safety risks are too insignificant to warrant that

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<sup>2</sup> Paul Craig Roberts, "Adding Up the Clean Air Costs," Washington Times (April 18, 1990) at F4.

<sup>3</sup> National Acid Precipitation Assessment Program, 1989 Report to the President and Congress (1990).

<sup>4</sup> One study has guessed that the benefits could be \$2-8 billion annually. Paul R. Portney, "Economics and the Clean Air Act," (Resources for the Future) at 4-5.

<sup>5</sup> For example, in the last twenty years, lead in the air has been cut by 95%. Environmental Protection Agency, National Air Quality and Emissions Trends Report (March 1990).

kind of draconian measure. We do not have to treat the nation as if it were Los Angeles."<sup>6</sup>

The cost of most of these proposals is not known. Furthermore, the Bush Administration has not attempted to analyze how much some of the provisions will cost. For example, the Council of Economic Advisers (CEA) did not hazard a guess about the cost of a key part of the Senate version of the bill that imposes a second phase of tailpipe controls if certain standards are not met. In addition, the CEA did not assign a cost to another provision that requires automobile manufacturers to install new equipment to prevent cars from emitting pollutants when started. It is believed that this provision will cost about \$2 billion per year.<sup>7</sup>

However, in 1989, the Office of Technology Assessment (OTA) conducted a study concerning a number of smog control measures which approximate some of those included in the current clean air proposals.<sup>8</sup> The OTA study estimated that the controls would cost \$9-12 billion per year when fully implemented.<sup>9</sup> However, this estimate is surely low as the OTA study did not include a number of measures included in the legislation currently pending. For example, the so-called "phase-two" tailpipe standards, which were not included in the OTA study, would cost anywhere from \$100 to \$600 per vehicle.<sup>10</sup> Also, the OTA study did not include an alternate

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<sup>6</sup> Warren Brookes, "Bringing Back Malaise?" Washington Times (Nov. 2, 1989) at F1. For the areas that are more heavily polluted, the amendments to the Clean Air Act will require controls on the use of vehicles and another level of regulations on emissions from tailpipes of automobiles.

<sup>7</sup> Paul Starobin, "Foggy Forecasts," National Journal (May 19, 1990) at 1213.

<sup>8</sup> Although OTA did conduct a study in 1989, subsequently, when the OTA was requested to do similar analysis on the costs of the Senate version of the Clean Air Act, it declined. A manpower shortage was cited as the reason.

<sup>9</sup> Office of Technology Assessment, Catching Our Breath: Next Steps for Reducing Urban Ozone (1989).

<sup>10</sup> The Senate version of the Clean Air Act includes automatic triggers to force more stringent tailpipe emission standards to take effect by the year 2004.

Although the range in additional costs per car is considerable, uncertainty marks the entire debate over the Clean Air Act. For example, the American Lung Association estimated that the cost of motor-vehicle pollution controls could range from \$4.43 - \$93.49 billion per year. In addition, according to Paul R. Portney, the chief economist of President Carter's Council on Environmental Quality, virtually nothing is known about the costs of curbing emissions of toxic chemicals. Paul Starobin, "Foggy Forecasts," National Journal (May 19, 1990) at 1212.

Warren Brookes has noted that one unintended consequence of the tailpipe standards is that it will actually slow down the improvement of automobile emissions. It is estimated that 85% of the emissions come from the 45% of automobiles that were manufactured prior to 1983. The higher cost of new automobiles that adhere to the Clean Air Act's tailpipe standard will

fuels provision. In addition, other pollutants were not considered in the 1989 report.<sup>11</sup> Altogether, the array of measures currently being considered will likely add over \$20 billion per year to air pollution costs.

The OTA report also examined the benefits to be accrued by new urban air pollution standards. Health effects and agricultural output were considered as the two relevant benefits. Taking into consideration the benefits associated with the new requirements of the OTA study as well as those amendments likely to be added by Congress, the benefits of the new legislation could range from \$4-12 billion per year.<sup>12</sup>

iii) Hazardous Air Pollutants: The Clean Air Act will attempt to reduce the effect on humans of hazardous air pollutants. It does this by establishing primary and residual risk standards. Both standards set the acceptable level of health risk based on statistical data. The primary standard has been set at six cancer deaths per million, or 10(-6). However, after the primary standard is achieved, there is to be a second analysis regarding how to further reduce the level of acceptable health risk. This is known as the "residual risk."

The current approaches toward both primary and residual risks are unrealistic. First, we do not know enough about cancer risks and how to establish standards. For example, the EPA has established a standard exposure level of 24 hours per day, seven days a week. But, surely, this is an unrealistic standard as no person will have this amount of exposure to hazardous air pollutants. In fact, there is insufficient data to establish a baseline, and so it will be impossible to measure the effect on health after the legislation's implementation.<sup>13</sup>

Second, whatever risk standards are established, it is unlikely that they will be cost effective. Indeed, cost-benefit analysis might indicate that the money spent on technology to

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encourage people to hold on to the older cars. Brookes, "Will Clean Air Act Be Derailed?" op. cit.

<sup>11</sup> The OTA study only considered "volatile organic compounds" that help create smog. The legislation currently being considered on Capitol Hill would consider other air pollutants as well, such as fine particulates and carbon monoxide.

In addition, forcing the adoption of fuels like ethanol and methanol could prove to be extremely costly. The environmental think tank Resources for the Future estimated that the costs of emission reduction using methanol could be as high as \$31,000 to \$66,000 a ton. Cited in Brookes, "Will Clean Air Act Be Derailed?" op. cit.

<sup>12</sup> Portney, op. cit. at 7.

<sup>13</sup> Denny Technical Services, op. cit. at 11-12.

control hazardous air pollutants would be better spent on medical research to find a cure for cancer.<sup>14</sup>

In addition, legislation will require the acquisition of the "maximum available control technology" (MACT) for major sources of hazardous air pollutants.<sup>15</sup> The controls required of a certain type of plant must be the same for all plants of that type regardless of the particular circumstances at each plant's location. This requirement also makes estimating the cost of the amendment uncertain since it is not known what technologies will be mandated by the EPA.

Thus, the estimated cost to control hazardous air pollutants varies widely. The Bush Administration's estimate of \$3 billion per year is certainly low as it did not consider all the sources likely to fall under the regulations. Some of those outside of the government have estimated that, if both the primary and residual programs are considered, the cost could range from \$14-62 billion per year.

Given that the EPA overestimates risk, the benefits to be derived from this legislation will be minimal. The EPA estimates that 100 of the most serious hazardous air pollutants may cause 1,700 -2,700 cancer cases per annum. Only one-fifth of these were blamed on the large stationary sources that will be required to have controls.<sup>16</sup> Therefore, no more than 500 cancer cases can be attributed to this type of pollution. Based on this data, one estimate of the benefits to be derived from this legislation is \$0-4 billion annually.<sup>17</sup>

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<sup>14</sup> A 1989 EPA study estimated that there were 300-500 cancer deaths per year that could be attributed to hazardous industrial pollutants. Nevertheless, estimates of the initial controls to be imposed on these stationary sources range from \$5 billion to \$7 billion, which again raises cost-benefit questions. Starobin, op. cit. at 1215. One commentator has noted that, compared to cancer-related deaths, more "will be killed in highway accidents as a result of the downsizing of cars required to meet emission and fuel-efficiency standards." Paul Craig Roberts, "Adding Up the Clean Air Costs," op. cit.

<sup>15</sup> The Senate version of the amendment has been judged the most onerous. The Senate would interpret the lowest achievable emission rate controls as the maximum available control technology. The Senate bill would require all facilities to achieve a one in ten thousand residual risk or be closed down. The cost of the Senate bill would be \$18.2 billion per year. If the second phase risk standards are enforced the total cost would be considerably more. Denny Technical Services, "Clean Air Act Legislation: House/Senate Side-By-Side Comparison," (July 30, 1990) at 3.

<sup>16</sup> Environmental Protection Agency, "Cancer Risk from Outdoor Exposure to Air Toxics," (September 1989).

<sup>17</sup> The lower boundary is set "because it is possible that no cancers will be prevented by the legislation." Portney, op. cit. at 9.

iv) Summary: Overall Cost. The estimate of the direct compliance costs of the clean air bills vary widely. The administration estimated that its proposal would impose direct costs of about \$20 billion annually. Both congressional bills are estimated to be more costly. The Bush Administration believes that the price tag of the two bills will be at least 25 % higher. If the more costly features of the House and Senate versions of the bill are enacted, including the costs of the tailpipe standards automatically triggered under the Senate bill, the Bush Administration believes that it would result in a total cost of \$35 billion annually.<sup>18</sup> Surprisingly, the Environmental Protection Agency (EPA) maintains that all three versions of the legislation afford similar levels of environmental benefits.

In light of the fact that the government tends to underestimate the cost of programs, others believe that the ultimate direct costs will be far greater than the above estimates. For example, a study issued by the Business Roundtable in January, 1990 estimated that the proposed clean air amendments could cost the economy as much as \$104 billion a year.<sup>19</sup> A more recent review prepared for industry's Clean Air Working Group estimated a cost range from \$51 to \$91 billion per year, totals far above administration or congressional estimates.<sup>20</sup> The study concluded that the amendments "would be nearly twice the country's current rate of air pollution control expenditures and would be the most costly environmental legislation ever passed in the United States."<sup>21</sup>

Estimates of the benefits to be derived from the proposed legislation are also difficult to make. As has been mentioned, it is problematic to make such estimates with any degree of confidence.<sup>22</sup> Nevertheless, the Congressional Research Service of the Library of Congress

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<sup>18</sup> Letter from CEA Chairman Michael Boskin to Representative John Dingell (July 24, 1990) at 2.

<sup>19</sup> Starobin, op. cit.

<sup>20</sup> The principal cost difference between the upper and lower limits depends upon whether the Senate or House versions of the bill are adopted. The primary provisions comprising the difference are the air toxics provisions (the House bill is estimated to be \$11.1 billion less per year than the Senate bill), the "Tier II" tailpipe requirements (the House bill would be nearly \$10 billion per year less than the Senate version), the nitrogen oxides control requirements, and the reformulated gasoline provisions (limited reformulated gasoline distribution would reduce the upper costs by \$12.3 billion per year). Denny Technical Services, "Clean Air Act Legislation: House/Senate Side-by-Side Comparison," (July 30, 1990) at i.

<sup>21</sup> Id. at iii-iv.

<sup>22</sup> According to one study, "The benefits to be achieved are highly uncertain and do not justify such an expenditure. Changes in human health and environmental effects would likely never be known. The effects baseline for comparing differences following implementation of the

reviewed the air pollution benefit studies and concluded that the Clean Air Act would have benefits of \$16 billion per year.<sup>23</sup>

Based on the above calculations, the conclusion reached by many observers is that, regardless of which version of the clean air act is adopted, the costs of the proposed legislation will far outweigh the benefits.

## 2) Indirect Costs

There will also be indirect costs to the clean air legislation. Most prominently, real consumption and productivity will decline. As a consequence of its enactment, the labor required in order to reduce air pollution will not be available to produce consumer goods and services, and there will be a diminution of productivity with the diversion of capital investment to environmental safeguards and control technology.

Furthermore, the proposed legislation will reduce U.S. international competitiveness. The diversion of resources such as labor and investment necessary to fulfill the mandates of the Clean Air Act will hamper our ability to compete. For an economy already deficient in skilled labor and having a lower rate of investment in productive capital in comparison to other major industrialized nations, the clean air requirements will act as a further impediment to U.S. global competitiveness. In part, this is because the new regulations and permitting procedures will increase the time required to create new products or production facilities. In fact, the costs associated with the new demands of pollution control may cause some industries to move offshore.

Finally, whichever version of the clean air bill is passed, there will be unemployment as a consequence. Even though the U.S. labor market is thought to be flexible, clean air legislation will have a negative effect and perhaps lasting impact on employment. Workers in certain occupational categories may face prolonged unemployment or considerable real income loss.

The prospect of industry moving offshore and the resultant unemployment has given the EPA little pause. For example, in 1989 Rep. John Dingell, Chairman of the House Committee on Energy and Commerce, initiated a General Accounting Office investigation concerning wood furniture plant closings in Southern California and the movement of those plants to Mexico because of the restrictions contained in the original Clean Air Act. Rep. Dingell requested that EPA also investigate this matter. However, the EPA declined to do so, stating its belief that the

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controls contained in the amendments is either too uncertain or does not exist." Denny Technical Services, op. cit. at iv.

<sup>23</sup> John Blodgett, "Potential Benefits of Enacting Clean Air Act Amendments," (Congressional Research Service; Feb. 5, 1990).

decline in employment in certain sectors of the economy, "will be largely offset by new jobs in the pollution control and services industry." Rep. Dingell responded to this assertion by questioning the indirect costs of such movements of industry offshore and even whether it is true that the jobs are offset. According to Dingell, the EPA

"fails to recognize or discuss the social impact of job loss or wage cuts on the existing wage earner and his or her family. It fails to recognize or discuss that the new jobs may be in other States, or miles away, or even Nations apart. It fails to recognize or discuss the impact on productivity and growth of the economy. It fails to recognize or discuss the wage differential of the jobs lost and those gained, or the time delay between jobs lost and jobs replaced. It fails to recognize or discuss the secondary effects on other industries. It fails to recognize or discuss the competition impacts. It fails to recognize or discuss the impact on minorities. It fails to recognize or discuss the impact on unemployment costs. Despite these failures, the EPA and environmental organizations have made this offset claim several times without explaining the basis for it and the Administration, in providing cost estimates of its proposal has, to my knowledge, never discussed these very relevant concerns."<sup>24</sup>

#### B. Oppressive Regulatory Regime.

A far less examined aspect of the legislation is the regulatory regime that will be created. The Clean Air Act is incredibly complicated and gives immense authority to the federal government. Among the important issues that remain relatively unexamined are:

1) The Clean Air Act is complicated and rigid. The proposed bills have hundreds of pages of regulations that allow no flexibility either for government departments and agencies or for the regulated industries. For example, the legislation will make it difficult, if not impossible, for industries to obtain approval for plant modernization and expansion. Yet, industries, already faced with the legal burdens of implementation, will be subject to severe enforcement sanctions if they are not in compliance.

2) The act imposes an onerous regulatory structure on small businesses. These small enterprises have neither the ability to be responsive to the new regulations (with its tight control requirements and complicated monitoring, record-keeping, and other paperwork burdens), nor will their compliance have a great effect on air quality. The clean air legislation creates an entirely new permitting system encompassing tens of thousands of businesses which have never been subject to environmental regulation. According to Frank Swain, formerly chief counsel for the U.S. Small Business Administration,

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<sup>24</sup> Letter of Representative John Dingell to Secretary of Labor Elizabeth Dole and CEA Chairman Michael Boskin (June 18, 1990) at 2.

"These businesses, because of their use of common solvents and chemicals causes them to emit something from the EPA's list of nearly 200 toxic substances, must follow a lengthy and expensive procedure set out by the bill in order to receive from the state government or the EPA an operating permit. And if there are missteps along the way to applying for this permit, the unwary entrepreneur can find himself or herself threatened with tremendous civil penalties or even a date with a local prosecutor interested in possible criminal violations."<sup>25</sup>

Also, there is the fear that local or regional air quality agencies will not be able to meet the bill's requirement for a 24% reduction in emissions within the first six years, and that inability will mean that the burden for reaching the target will fall on thousands of small businesses.

3) Finally, the legislation concentrates power in the federal bureaucracy for implementation and enforcement. The bill will impose rigid federal rules that will govern state and local air pollution efforts. For the first time, the bill would give the federal government authority over permit conditions for all enterprises. Under the permitting title, the EPA can close any business in the country, or force the enterprise to meet any conditions in order to continue to operate. Furthermore, it will empower the EPA Administrator to dictate to local authorities or impose sanctions. It therefore limits the ability of state and local government to implement the act's requirements in the most cost effective manner.

There are significant cost considerations concerning the power that the EPA Administrator will have. For example, it has been estimated that he will have discretionary authority over \$40 billion per year in costs depending upon the final provisions adopted in the Clean Air Act. For example, the House ozone non-attainment NOx reduction requirements and the Senate transport region NOx control requirements total over \$10 billion per year and would be subject to EPA Administrator review and approval. Also, the House "Tier II" tailpipe provision authorizes the administrator to evaluate the need for, cost effectiveness of, and technical feasibility of those second phase controls. He would have the latitude for courses of action that could cost an additional \$10 billion per year.<sup>26</sup>

Because the public debate has been dominated by analysis and discussion of the problems of the cost of the proposed legislation, these negative aspects have been neglected. However, critics of the act have argued that the states and industry should have the option of choosing the most flexible approach to achieving the desired environmental benefits and that market incentives should play a major role. Unfortunately, the current regulatory scheme does not permit such solutions.

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<sup>25</sup> Frank S. Swain, "Clean Air Act Filled With Traps for Small Business," Human Events (July 7, 1990) at 16.

<sup>26</sup> Denny Technical Services, op. cit. at 7-8.

### III. Conclusion

President Bush told Congress in January, 1990 that he would not approve new clean air legislation from Congress if its cost exceeded his own plan by more than 10%. However, Council of Economic Advisers member Richard L. Schmalensee has admitted to the difficulty of even estimating what a 10% greater cost is. He merely stated that the 10% figure was Bush Administration shorthand for a "major cost increase."

The evidence indicates that the proposed versions of the Clean Air Act will constitute a major cost increase over both the current cost of clean air controls and the Bush Administration's proposals. Both the direct and indirect costs of the clean air legislation will have disastrous consequences for the U.S. economy and will cost consumers, workers, and corporations massive sums of money. Furthermore, the taxpayer will have to pay for a growing federal bureaucracy to govern these detailed new regulations. Finally, it is not even clear that the sacrifices being asked of consumers, workers, taxpayers, and entrepreneurs will ultimately lead to benefits that can be justified by the enormous costs associated with the legislation.

It is not certain that the U.S. ever would be able to afford the price tag for the proposed amendments. But at a time when events in the Middle East will dictate higher energy costs, it is evident that these "draconian" measures are premature, and perhaps permanently so.

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**CUTTING WASTE:  
HOW TO AVOID INCREASED TAXATION  
OPTIONS FOR CONGRESS AND THE PRESIDENT  
FISCAL YEARS 1991 - 1995**

**JUNE, 1990**

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Citizens Against Government Waste

Citizens Against Government Waste (CAGW) is a 350,000-member, non-partisan, nonprofit organization which educates the American people about waste, mismanagement and inefficiency in the federal government.

As a result of a larger than expected deficit projection for Fiscal Year 1991, a budget summit between Congressional leaders and the White House has been called with "everything on the table." Discussions, to date, center on the old standbys: raise taxes or cut spending.

As Congress and the president move forward with their budget negotiations for Fiscal Year 1991 and beyond, there is a major component of deficit reduction which should be in the center of that table: eliminate government waste.

On the table are proposals to raise taxes, including House of Representatives Ways and Means Committee Chairman Dan Rostenkowski's (D-IL) plan for a tax increase of \$195 billion over five years — almost \$40 billion annually. A value-added tax, gasoline taxes, and excise taxes are also candidates for raising revenue to reduce the deficit.

Citizens Against Government Waste (CAGW), a 350,000-member nonpartisan educational organization, has an alternative to all of these discussions about taxes — almost \$305 billion of waste elimination over five years.

The notion that we have chronic budget deficits because taxes are too low is a complete falsehood. Revenues in FY 1990 will grow by more than \$82 billion as a result of economic growth. We have chronic deficits because income tax revenues have increased by 8 percent a year during the past decade, while Congress has increased spending by 11 percent annually.

It is an outrage that discussions about raising taxes are occurring at the same time that the head of the General Accounting Office — Congress' own investigating agency — stated on national television that there is \$180 billion in annual government waste, fraud and mismanagement.

Government waste is now a national scandal. The savings and loan crisis will cost taxpayers at least \$325 billion and as much as \$500 billion — money that will not help our children go to college, repair our crumbling infrastructure, or provide shelter for the homeless. As much as \$8 billion has been lost or unaccounted for at the Department of Housing and Urban Development (HUD), where for several years it was more important to curry political favor than to efficiently carry out housing programs.

Last fall, the Office of Management and Budget revealed that there are over 100 programs that could explode into the same kind of crisis that arose out of the S&L and HUD disasters.

The Pension Benefit Guaranty Corporation, responsible for insuring private pension plans, has found that the underfunding of pension plans by fifty major companies, including General Motors Corp., Kellogg Co., American Airlines, RJR Nabisco, and Western Union, represents a potential risk to the federal government of \$14 billion. As in the case of the S&Ls, taxpayers could be left holding the bag for the financial mismanagement of private companies.

There is now more than \$125 billion in outstanding delinquent debt owed to the government by individuals, students, farmers, small businessmen and veterans. Collecting just one-fifth of this money owed the government would bring in \$25 billion.

This report, "Cutting Waste: How to Avoid Increased Taxation," contains 107 recommendations for cutting waste. If enacted, these recommendations would save almost \$305 billion over five years, without impairing essential government programs.

The report does not pretend to be a work of original scholarship. Rather, it is a digest of waste-cutting initiatives that have already been published in easily accessible public documents — available to Congress and the President, yet not acted upon.

Some of the recommendations are updated versions of Grace Commission proposals. Most have been gleaned from recent reports, including: the Congressional Budget Office (*Reducing the Deficit: Spending and Revenue Options*, February, 1990); the Heritage Foundation (*Slashing the Deficit: Fiscal Year 1990*); *Budget of the United States Government*, Fiscal Year 1991, and numerous reports by the General Accounting Office and the Inspectors General of various federal departments. The source of savings is cited following each recommendation. Where no source is cited, the figure represents CAGW's best estimate based on a compilation of the foregoing material.

We say to the respected leaders of the Congress and the Bush Administration as they gather around the table to discuss how to reduce the deficit that they should do so in a manner that will be fair to the American people and continue to bring economic prosperity:

Raise taxes: NO

Cut waste: YES

A summary of the savings follows:

	<u>ISSUE</u>	<u>SAVINGS (\$ billions)</u>
1.	CREDIT/CASH MANAGEMENT	\$ 49.7
2.	NATIONAL DEFENSE	48.5
3.	TRANSPORTATION	45.6
4.	HEALTH	38.6
5.	GENERAL GOVERNMENT MANAGEMENT	22.6
6.	INCOME SECURITY	15.6
7.	BUDGET PROCESS	15.0
8.	ENERGY AND SCIENCE	14.7
9.	AGRICULTURE	13.1
10.	FINANCIAL MANAGEMENT	11.0
11.	COMMERCE/HOUSING CREDIT	10.9
12.	NATURAL RESOURCES/ENVIRONMENT	8.8
13.	COMMUNITY DEVELOPMENT	6.4
14.	EDUCATION AND TRAINING	4.3
	Total:	<u><u>\$304.8</u></u>

Of the total of \$304.8 billion in savings over five years, credit/cash management, national defense, and transportation account for \$143.8 billion. Highlights of these three major savings areas and other important recommendations follow:

### **Credit/Cash Management**

- Require agencies to employ private sector-type debt collection methods, establish incentives for agencies to use such methods and improve IRS capabilities to collect back taxes, penalties and interest. Five-year savings: \$25 billion
- Require employers to deposit accumulated payroll taxes of \$3,000 or more within one banking day after disbursement of wages. Five-year savings: \$14.5 billion
- Expand federal loan sales. Five-year savings: \$10 billion

### **National Defense**

- Cut red tape in defense procurement. Increase use of genuine competition in bids for defense contracts. Purchase more components directly from suppliers. Civilianize and centralize audit and inspection. Five-year savings: \$35 billion
- Close strategically insignificant military bases and facilities, both at home and overseas. Five-year savings: \$10 billion
- Close military commissaries except those in militarily sensitive or remote areas, and use private firms to manage and operate commissaries. Five-year savings: \$3.5 billion

### **Transportation**

- Establish the Federal Aviation Administration as a private corporation. Five-year savings: \$21.5 billion
- Eliminate federal airport grants and impose a \$3.00 user charge per airline ticket. Five-year savings: \$5 billion
- Eliminate parochial spending projects from highway bills and lift the ban on tolls for highways built with less than 75% federal funding. Five-year savings: \$5 billion

### **Health**

- Rebase the rates for Medicare's prospective payment system (PPS), which were initially set at too high a level in relation to actual medical costs. Five-year savings: \$15.3 billion
- Begin implementing in 1991 rather than 1992 the new Medicare fee schedule (MFS) approved by Congress. Five-year savings: \$5.3 billion

### **Budget Process**

- Grant the President enhanced rescission authority. Five-year savings: \$10 billion
- Enact a biennial budget cycle requiring two-year appropriation bills, a strict timetable for the budget resolution and appropriations bills, and increased time for oversight. Five-year savings: \$5 billion

## Financial Management

- Establish a chief financial officer (CFO) for the United States, establish a uniform accounting system for the federal government, and require annual financial statements and independent audits of all federal agencies. Five-year savings: \$5 billion

### 1. CREDIT AND CASH MANAGEMENT

#### A. Collect more delinquent tax and non-tax debt

Delinquent federal loan and tax payments have surged from \$30 billion in 1981 to \$127 billion in 1990 — an increase of 323% in nine years. IRS Commissioner Fred T. Goldberg estimates that of the \$87 billion owed to the government in back taxes, penalties and interest, roughly \$30-40 billion is collectible. A significant portion of the \$40 billion in non-tax debt could be collected through greater use of private collection agencies and credit bureaus, and by providing incentives for federal agencies to recover this debt.

#### Recommendations

- (1) Require agencies to report to private credit bureaus all loans when they are made and to make periodic status reports on the loans. Federal borrowers who repay their loans on time will thereby earn or maintain favorable credit ratings, while fear of a bad rating will provide an inducement to avoid delinquency and default.
- (2) Require agencies to report to a private collection agency every debtor 180 days delinquent. Private sector firms routinely employ this method.
- (3) Provide an incentive for agencies to collect delinquent debt by allowing them to retain a small percentage of funds collected in excess of an established target. (Heritage, pp. 7-8)
- (4) Require the IRS to make greater use of its Automated Collection System (ACS) in processing 100% penalty cases, as recommended by the General Accounting Office. (GAO/DDG-89-84)
- (5) Provide funding to hire at least 1,000 new collection agents annually for the IRS.

FY 91-95 Savings: \$25 billion

#### B. Enact HHS OIG recommendation on employers' payroll tax deposits

Last year, the Office of Inspector General of the Department of Health and Human Services (HHS OIG) recommended that employers be required to deposit accumulated payroll taxes of \$3,000 or more within one banking day after the disbursement of wages. Congress subsequently enacted a much watered-down version of this recommendation, requiring employers to deposit accumulated payroll taxes of \$100,000 or more within one banking day of wage disbursements for 1991, two days for 1992, and three days for 1993.

The deposit reform enacted by Congress will save the government about \$900 million in FYs 1991-1995. Had Congress enacted the original OIG recommendation, however, the government would have saved \$15.5 billion during that period. (HHS OIG *Semi-Annual Report*, April-September, 1989, p. 49)

### **Recommendation**

- (1) Require employers to deposit accumulated payroll taxes of \$3,000 or more within one banking day after disbursement of wages.

FY 91-95 Savings: \$14.5 billion

#### **C. Expand federal loan sales**

With a loan portfolio totalling \$750 billion, the federal government is the world's largest lending institution. The delinquency rate on federal loans is 8%, almost three times the rate in the private sector. Loan asset sales for FY 1991 are projected to have a \$1.1 billion face value. But greater savings could be achieved through immediate sales of the approximately \$40 billion in new loans the federal government issues annually. The Heritage Foundation estimates that efficiencies from loan privatization could enhance federal revenues from loans by as much as 10%. (Heritage, pp. 4-5)

### **Recommendations**

- (1) Require federal lending agencies to sell all newly originated loans to the private sector through competitive auctions.
- (2) Privatized loans should be "nonrecourse," i.e., the federal government should not be liable for the losses of any privatized loan that goes into default.

FY 91-95 Savings: \$10 billion

#### **D. Modernize cash management**

The federal government transfers more than \$100 billion each year to the states and local governments to carry out federal programs. When the money is provided to the states prior to the time actually needed, states earn interest on federal money. The reverse is true when the states have to spend their own money on federal programs because the federal government has not provided funds in a timely manner. In each case, interest on the money is lost to one or the other of the governmental entities.

### **Recommendations**

- (1) Establish procedures for more timely disbursement of federal funds to the states.
- (2) Pay interest to the federal government for early drawdowns of federal funds by the states, and pay interest to the states if there is late disbursement of funds by federal agencies.

FY 91-95 Savings: \$200 million

#### **E. Curb use of agency borrowing and loan guarantees to evade budget discipline**

Congress has devised two principal methods to evade budget discipline in an era of fiscal restraint. One method is to grant agencies "authority to borrow," which permits them to spend

funds borrowed from the Treasury without having to submit an annual appropriations request for the funds. Using this authority, federal agencies borrowed a total of \$353 billion during FYs 1978-1987, and increased their outstanding debt with the Treasury from \$76 billion to \$195 billion. (GAO/AFMD-89-4)

Much agency "borrowing" is not really borrowing at all. Most of the debt payments made by the agencies come, not from income these agencies generate, but from appropriations and new "borrowings." On such repayments, the Treasury does not recover any funds. Thus, "authority to borrow" is largely a misnomer. It allows Congress to appropriate funds without appearing to do so. It misrepresents program costs by creating the false impression that all "borrowed" funds will be paid back.

A second method Congress uses to evade budget discipline is to expand federal loan guarantees. Guarantee commitments, which have been growing at almost 20% annually, allow Congress to provide money to special interests without immediate cash outlays that would increase the deficit. The potential cost to taxpayers is enormous. When borrowers default on federally guaranteed loans, the private lenders must be reimbursed by the Treasury. Loan guarantees issued in 1987 alone will cost taxpayers an estimated \$10 billion in future outlays. (Heritage, pp. 6-7)

### **Recommendations**

- (1) Provide authority to borrow only to agency accounts that are able to repay their debt with collections.
- (2) Limit the time agencies can use authority to borrow without renewed congressional approval, and limit the amount of debt they can accumulate.
- (3) Appropriate funds to cover the estimated losses of federal loans or guarantee commitments each year (the credit subsidy costs) before granting the authority to issue those loans or commitments.

Although savings cannot be estimated, these reforms would improve the accuracy and accountability of the budget process.

**Total Credit/Cash Management: \$49.7 billion**

## **2. NATIONAL DEFENSE**

### **A. Fix the defense procurement process**

The defense procurement system has been studied by the Grace Commission, the Packard Commission, the Congress, the General Accounting Office (GAO), and hundreds of academics. All have reached the same conclusion — it wastes billions of dollars every year. The six specific defects of the procurement system that follow are major impediments to efficiency at the Department of Defense (DOD).

First, there is excessive bureaucracy and red tape. Some 485,000 civilian and military personnel work on defense procurement matters. 30,000 pages of regulations and hundreds of thousands of detailed design specifications are costly to administer, discourage small business from seeking government contracts, and restrict the purchase of commercial items "off the shelf."

Second, less than 5% of procurement dollars are bid in a truly competitive manner as is done in the private sector. Rather than use sealed bids and formal advertising, DOD typically negotiates with a few firms, each of which may know what the other is bidding.

Third, instead of buying weapons subsystems or components directly from suppliers, DOD usually purchases these items through a “prime contractor” who serves as a middleman. Multiple layers of subcontracting can raise the price of a weapons system by as much as 50%.

Fourth, procurement cycles are too short. Congress’ practice of passing defense budgets on a year-to-year basis reduces the number of items DOD can purchase per year, preventing defense contractors from achieving economies of scale and raising unit costs.

Fifth, DOD has an ineffective audit system that allows procurement fraud to occur. DOD is the only federal department that does not have independent and unified auditors and inspectors.

Sixth, procurement officers spend less than two years in their rotation, whereas the average weapons system takes eight years to develop and produce. With little time to learn, procurement officers frequently must defer to the expertise and guidance of contractors.

### **Recommendations**

- (1) Substantially decrease the number of individuals working in the procurement system. Secretary of Defense Cheney has proposed reducing personnel by 40,000.
- (2) Cut red tape. Support the Secretary of Defense’s efforts to reduce and streamline DOD’s acquisition rules. Eliminate all design specifications not needed to lower cost or improve quality.
- (3) Increase the use of genuine competition by increasing the number of advertised, sealed bids.
- (4) Enforce the two-year budget system and increase the use of multi-year procurement.
- (5) Purchase more subsystems and components directly from suppliers. Increase the effectiveness of procurement breakout centers.
- (6) Civilianize and centralize the inspection and audit process.
- (7) Create a career path for procurement officers so they can spend the time necessary to manage a procurement cycle from beginning to end.

FY 91-95 Savings: \$35 billion

#### **B. Close strategically unimportant military bases**

DOD maintains approximately 5,600 installations and properties worldwide, of which about 4,200 are in the United States. Congress’ decision to uphold the recommendations of the Commission on Base Closures and Realignment (CBCR) will save taxpayers \$1.5 billion during FYs 89-95 and \$5.6 billion over a twenty year period. However, the 86 bases that will be closed in accordance with the CBCR’s recommendations represent only a small fraction of those that could be closed without risk to U.S. national security. In 1983 — six years before the recent dramatic changes in Eastern Europe — the Pentagon estimated that only 312 bases in the United States were

militarily significant. (Grace Commission Report on OSDOD, p. 105) As U.S. military force structure is reduced in accordance with changing security requirements, the short-term costs associated with base closures will decline and the short-term savings will increase.

There is widespread concern on Capitol Hill that additional base shutdowns will mean loss of jobs in the affected states and districts. History does not support those fears. In 1986, the Pentagon's Office of Economic Adjustment reviewed 100 base closings over a 16-year period and found that while 93,424 DOD civilian jobs were lost, 138,138 new private sector jobs were created in their place.

#### **Recommendation**

- (1) In consultation with DOD and in accordance with long-term military strategy agreed to by Congress and DOD, close all strategically insignificant bases in the U.S. and overseas.
- (2) Remove regulatory impediments to base closure, while protecting legitimate community interests.

FY 91-95 Savings: \$10 billion

#### **C. Reduce the number of military commissaries and contract with private business to participate in management and operation**

The 430 military commissaries run by DOD are convenience stores providing discounted and tax-free goods to active military personnel, reservists, and retirees. Tax dollars pay for the wages of all commissary employees and for other operating costs.

The original purpose of commissaries was to give military personnel and their families in isolated areas access to merchandise. Today, half of all commissaries in the U.S. are in urban areas; 84% are within ten miles of at least two supermarkets. (Heritage, p. 17)

#### **Recommendation**

- (1) Close all commissaries except those in militarily sensitive or remote areas; use private firms to manage and operate commissaries.

FY 91-95 Savings: \$3.5 billion

**Total Defense: \$48.5 billion**

### **3. TRANSPORTATION**

#### **A. Privatize the Federal Aviation Administration (FAA)**

The nation's air traffic control system — a federally owned monopoly administered by the FAA — has been plagued by problems. Lack of competition has removed incentives for economic efficiency. Use of general tax revenues to finance the system has made it unresponsive to market conditions. Civil service regulations have hampered the efficient use of personnel, and political control has impeded long-range rational economic planning. (Robert W. Poole, Jr., "Air Traffic Control: The Private Sector Option," Heritage Backgrounder No. 216, 1982, p.2)

When airports have contracted out air traffic control services to private firms (as during the PATCO strike of 1981), savings have been remarkable. The cost to the government of using private firms typically is one-half to two-thirds less than the cost of federal controllers. (Stuart M. Butler, *Privatizing Federal Spending: A Strategy to Eliminate the Deficit*, Universe Books, 1985, p. 134). According to the Congressional Budget Office, transferring management of air traffic control from the FAA to private interests would give managers greater incentives to achieve efficiency and to allocate resources in ways that more closely match the needs of users and their willingness to pay for air traffic control services.

#### **Recommendation**

- (1) Establish FAA as a private corporation.

FY 91-95 Savings: \$21.5 billion (CBO, p. 268)

#### **B. Reduce federal aid for mass transit**

The federal government now pays over 70% of all investment in mass transit systems, and roughly 16% of all operating costs — about \$3.5 billion a year. The huge federal investment gives cities an incentive to lobby for the most expensive transit projects, while the federal subsidy for operating costs diminishes their incentive to achieve efficiency in transit operations.

#### **Recommendations**

- (1) Terminate federal transit operating subsidies.
- (2) Lower the federal cost-share of transit capital projects from 70% to 50%.

FY 91-95 Savings: \$5.6 billion (CBO, p. 266)

#### **C. Replace airport grants-in-aid with passenger user charges**

Federal grants create incentives to build additional capacity where it is less needed, but have done little to alleviate airport congestion. A promising alternative to federal funding is the imposition of a user fee known as a “passenger facility charge” or PFC. Most commercial airports would have little trouble financing capital improvements from such fees. The Department of Transportation (DOT) estimates that by imposing an average PFC of \$3 per passenger, almost 60 major airports would collect more than twice what they receive in federal airport formula grants. Although PFCs are levied in 138 countries, Congress in 1973 prohibited their use in the U.S.

#### **Recommendation**

- (1) Replace federal grants with passenger facility charges.

FY 91-95 Savings: \$5 billion (CBO, p. 268)

**D. Eliminate highway “demonstration” projects; lift ban on direct user fees for primary highways and urban roads**

With the Federal Highway System now almost 99% complete, federal funds are being used to finance local roads, bridges, and other parochial projects. The 1987 Highway Authorization Bill contained over \$1 billion in earmarked funds for more than 100 “demonstration” projects, including a \$3 million parking garage in Chicago and an access ramp to an Ohio amusement park. General taxpayers should not have to fund such pork barrel projects.

Current federal funding policy is partly responsible for the deterioration of national infrastructure. States must pay the cost of routine road maintenance, but the federal government pays up to 90% of the cost of resurfacing, restoration and rehabilitation. This arrangement gives states an incentive to let roads deteriorate so they can qualify for federal improvement funds.

Current law also prohibits states from charging tolls on any roads or highways funded by the federal government. Yet tolls are a more efficient and equitable user fee than the gasoline tax. Toll would also enable highway officials to charge higher prices for peak period usage, establishing incentives to reduce traffic congestion. (Heritage, pp. 86-88)

**Recommendations**

- (1) Eliminate federal funding for all parochial “demonstration” projects.
- (2) Allow states to impose tolls to cover the cost of maintaining and extending roads that have received up to 75% federal funding.
- (3) Gradually transfer funding and responsibility for highway reconstruction and repair to the states. Lower the federal gasoline tax by one cent each year for five years, while encouraging the states to offset the loss in revenues through tolls or increases in local gasoline taxes.

FY 91-95 Savings: \$5 billion

**E. Establish user fees for certain Coast Guard services**

Nearly half of the Coast Guard’s \$2.3 billion operating budget is for services provided directly to individuals or businesses such as aids to navigation, search and rescue, and marine safety. Yet consumers of such services pay only a small fraction of the total cost.

**Recommendation**

- (1) Impose user fees on Coast Guard services for commercial and recreational navigation.

FY 91-95 Savings: \$3.8 billion (CBO, p. 275)

**F. Raise user fee to cover overhead and maintenance costs of inland waterway system**

The Army Corps of Engineers will spend about \$700 million on the nation’s inland waterways in 1990. Although current law allows up to 50% of inland waterway construction to be funded by revenues from a user fee known as the inland waterways fuel tax, revenues from the tax fund only about 20% of construction costs. General taxpayers pay for all operations and maintenance costs.

### **Recommendation**

- (1) Impose user fees to recover the cost of O&M outlays for inland waterways.

FY 91-95 Savings: \$1.8 billion (CBO, p. 273)

### **G. Increase harbor maintenance tax**

The Army Corps of Engineers spends about \$500 million per year to maintain channel depths in harbors for more than 180 ports nationwide. In 1990, the government will recover about 30% of these expenses through a tax on the value of commercial cargo loaded or unloaded at coastal ports. Raising user charges from 0.04% to 0.12% of the cargo's value would allow the government to recover 60% of harbor maintenance costs in 1991 and 80% by 1994. Yet the increase in user charges would not depress economic activity, because it would raise average overall charges for port use by less than 1%.

### **Recommendation**

- (1) Raise harbor maintenance tax from 0.04% to 0.12% of the cargo's value.

FY 91-95 Savings: \$1.6 billion (CBO, p. 244)

### **H. Enact 5-year legislative plan to privatize Amtrak**

While Amtrak has made significant progress to reduce costs and increase revenues, it continues to run annual deficits of approximately \$600 million. Federal subsidies to Amtrak average \$25 per passenger trip, or about 10 cents per passenger mile. By contrast, federal subsidies average about 0.1 cents per mile for bus, automobile, and airline travel. Amtrak itself provides a \$35 million annual subsidy to state and local rail services; according to the Federal Railroad Administration. (Heritage, pp. 83-85)

### **Recommendations**

- (1) Reduce Amtrak subsidies automatically by 20% per year. Require management to restructure Amtrak to prepare it for conversion to private ownership.
- (2) Require local commuter trains to reimburse Amtrak fully for use of its lines.
- (3) After five years of reorganization, transfer Amtrak operations to the private sector. Give employees and management the first opportunity to purchase Amtrak at a slightly below-market price.

FY 91-95 Savings: \$1.3 billion

**Total Transportation: \$45.6 billion**

#### 4. HEALTH

##### A. Rebase prospective payment system (PPS) payments to hospitals under Medicare

The prospective payment system (PPS) was instituted in 1983 to slow the growth of Medicare payments and to encourage efficiency in the provision of hospital care. It specifies payment rates in advance and requires hospitals to bear the loss if their costs are higher. It also allows hospitals to keep the difference if their costs are lower than the payments. Hospitals thus have both positive and negative financial incentives to provide efficient care. However, because initial payment rates were set too high in relation to actual costs, the Medicare program has not shared in any of the savings hospitals have achieved through improvements in efficiency. This is one factor adding to the forthcoming Medicare funding crisis. Under current assumptions, the Medicare Trust Fund will be empty somewhere between 1999 and 2006.

##### Recommendation

- (1) Rebase PPS rates to the 1983 levels, adjusted for inflation, and raise them by an additional two percentage points annually to allow for increases in the complexity of cases.

FY 91-95 Savings: \$15.7 billion (CBO, p. 122)

##### B. Scale back the disproportionate share adjustment in Medicare's prospective payment system (PPS)

Under PPS, higher rates are paid to hospitals with a disproportionate share of low-income patients. In 1991, "disproportionate share" adjustments are expected to total \$1.6 billion, or 3.2% of all PPS payments. The rationale for such adjustments is that hospitals treating low-income patients incur additional expenses. According to the Congressional Budget Office, however, the evidence does not support this hypothesis.

##### Recommendation

- (1) Phase out disproportionate share adjustment payments.

FY 91-95 Savings: \$5.6 billion (CBO, p. 124)

##### C. Accelerate implementation of Medicare fee schedule (MFS)

Under current Medicare policy, payments for physicians' services equal the lowest of the following: (a) the physician's actual charge, (b) the physician's customary charge for the service rendered, or (c) the prevailing charge for that service in the community. This system is to be replaced by a Medicare fee schedule (MFS) derived from a resource-based relative value scale. The new payment rates will more accurately reflect the resource costs of providing medical services. A phased transition is scheduled to begin in 1992, but significant savings could be achieved by starting in 1991.

### **Recommendation**

- (1) Begin in 1991 to reduce payments for all procedures with charges above the MFS level. Specifically, reduce prevailing charges each year to eliminate half the difference, with a maximum reduction of 15%.

FY 91-95 Savings: \$5.3 billion (CBO, p. 119)

#### **D. Increase Medicare's deductible for physicians' services**

The Medicare deductible is now \$75 a year. It has been increased only twice since 1966, when it was \$50. In relation to average annual per capita benefits, the deductible has fallen from 70% in 1967 to 7% in 1989. Raising the deductible would encourage greater prudence in the consumption of medical care.

### **Recommendation**

- (1) Increase the Supplementary Medical Insurance (SMI) deductible to \$100 on January 1, 1991. Index the new deductible to the rate of growth in SMI charges per enrollee for 1992 and later years.

FY 91-95 Savings: \$5.3 billion (CBO, p. 138)

#### **E. Reimburse hospitals for capital expenditures under Medicare on prospective payment basis**

When Congress established the prospective pay system (PPS) in 1983, it left in place the retrospective, cost-based method of reimbursing capital-related expenses such as interest, rent, and depreciation. Congress has stated its intention to introduce prospective payment for capital-related expenses, but has not done so.

### **Recommendation**

- (1) Adopt a prospective system under which hospitals are reimbursed for capital expenditures by increasing diagnosis-related group (DRG) payments to reflect the capital costs involved in treating each diagnosis.

FY 91-95 Savings: \$3.1 billion (CBO, p. 130)

#### **F. Promote more efficient health care for veterans, while increasing Department of Veterans Affairs' freedom to allocate resources**

In 1988, the Department of Veterans Affairs (DVA) spent \$5.5 billion on inpatient health care services in DVA hospitals. Evidence exists that one-quarter or more of inpatient days in these hospitals are inappropriate or unnecessary. Waste could be reduced by requiring the DVA to use a prospective payment system (PPS). Each patient would be classified in a diagnosis-related group (DRG), which would then entitle the hospital to a fixed payment designed to reflect the average cost of efficient care for such a patient. Prospective funding for DVA hospitals would enhance their incentives to use resources efficiently. For this reform to be effective, however, the DVA would also have to be given greater control over the nature and location of its facilities.

### **Recommendation**

- (1) Require the DVA to adopt PPS, while increasing the DVA's authority to allocate resources.

FY 91-95 Savings: \$1.7 billion (CBO, p. 314)

#### **G. Close or convert inefficient or under-used facilities in Department of Veterans Affairs' Hospitals**

The DVA operates 172 medical centers, 119 nursing homes, and 233 outpatient clinics. Most of these are modern and well staffed, treating increasing numbers of patients. But some have experienced a declining demand for services.

### **Recommendation**

- (1) Close or convert small hospitals or underused facilities within hospitals (roughly the equivalent of 4% of DVA hospital beds).

FY 91-95 Savings: \$1.2 billion (CBO, p. 313)

#### **H. Adopt prospective payment system in Federal Employees Health Benefits (FEHB) program**

The FEHB program offers health insurance coverage for federal employees, retirees, and their dependents. The program covers about 4 million enrollees at an annual cost to the federal government of about \$7 billion. FEHB insurance carriers pay hospitals in 2 ways — some on the basis of actual charges, and others on the basis of pre-determined rates that have been negotiated with the hospitals and that reflect certain discounts. Efficiencies could be achieved by adopting a prospective payment system (PPS) similar to the one instituted by the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) for military dependents and retirees.

### **Recommendation**

- (1) Adopt the prospective payment system (PPS), based upon diagnosis-related group (DRG) payment schedules.

FY 91-95 Savings: \$700 million (CBO, p. 342)

**Total Health: \$38.6 billion**

## **5. GENERAL GOVERNMENT MANAGEMENT**

### **A. Contract out commercial services**

The federal government currently spends \$50 billion a year on commercial-type services. A presidential directive known as OMB Circular A-76, first issued in 1979, states that federal agencies "shall not start or carry on any activity to provide a commercial product or service if it can be procured more economically from a commercial source."

Contracting out has become a widespread practice in our nation's state and local governments. Los Angeles County, for example, saves \$130 million annually by contracting out routine commercial services. To date, however, less than 10% of commercial services performed by the federal government have been put out for competitive bids.

There are three main reasons for this. First, federal agencies ignore Circular A-76 and do not make the timely cost comparisons they are required to perform. Second, the rules are biased against the private sector. A private bidder must submit a proposal that is at least 10% lower than the agency's cost, or the service remains in-house. Third, Congress has enacted over three dozen laws exempting agencies from Circular A-76. (Heritage, pp. 1-2)

The level of savings that can be achieved through contracting out partly depends on the number of full time federal employees who provide commercial services: the greater the number of such employees, the greater the potential savings. According to the Contract Services Association (CSA), at least 500,000 and as many as 1.5 million full-time federal personnel are engaged in the provision of commercial services. CSA estimates that with the full cooperation and support of Congress, OMB, and agency top management, contracting out would save at least \$5 billion per year and as much as \$15 billion per year.

#### **Recommendations**

- (1) Set a fixed timetable for every agency to identify all commercial services they provide, and require agencies to perform cost comparisons to determine whether these services could be provided privately at less cost.
- (2) Automatically contract out commercial services for which agencies fail to perform timely cost comparisons.
- (3) Eliminate all legislative prohibitions on contracting out that cannot be justified on public interest grounds.
- (4) Require that all new activities be contracted out unless the agency can demonstrate the need and economy of in-house performance.
- (5) Allow federal employees to bid on federal contracts, and enable displaced workers to relocate in other available and comparable positions in the government.

FY 91-95 Savings: \$10 billion

#### **B. Impose royalty payment on communications users of electromagnetic spectrum**

While the Federal Communications Commission (FCC) charges fees to cover the cost of the application and licensing process, broadcasters profit from using the air waves — a public resource — without compensating the public. Many holders of FCC licenses earn higher-than-average profits, or rents, through their use of this scarce resource.

#### **Recommendation**

- (1) Charge users of the electromagnetic spectrum who earn revenues from generating or relaying a signal an annual royalty payment equal to 2% of their gross revenues.

FY 91-95 Savings: \$4.8 billion (CBO, p. 263)

### **C. Auction unassigned portions of electromagnetic spectrum**

Under current law, frequencies for microwave transmission (pay television), cellular mobile radio (car phones), and low-power television are assigned either by lottery or through "comparative hearings" by the FCC. Both methods allow the winning firm or individual to reap a large financial windfall, because successful applicants are free to resell their licenses to other firms at the market rate. Eventually, licenses end up in the hands of those who place the highest economic value on their use. An auction would produce the same outcome, but with this difference: the proceeds would go to the Treasury, not to the lucky initial licensee. (Heritage, p. 80)

#### **Recommendation**

- (1) Auction licenses for unassigned frequencies to the highest bidder, with the revenues from the auction going to the Treasury.

FY 91-95 Savings: \$3.4 billion (CBO, p. 262)

### **D. Modify the Davis-Bacon Act by allowing unrestricted use of helpers and raising contract threshold**

Since 1935, the Davis-Bacon Act has required that workers on federal construction projects at a threshold level of \$2,000 or more be paid "prevailing wages," which in practice has often meant union scale. The Act also restricts the use of part-time and temporary "helpers." Moreover, current regulations deter employers from paying helpers a lower wage than journeymen.

Davis-Bacon costs the federal government more than \$1 billion annually in increased construction expense; restricts employment opportunities for less-skilled workers; and discriminates against small businesses that cannot afford to pay workers high union wages.

#### **Recommendations**

- (1) Raise the triggering threshold contract award level from the 1935 level of \$2,000 to \$250,000.
- (2) Allow unrestricted use of part-time and temporary workers and permit them to be paid lower wages than journeymen.

FY 91-95 Savings: \$2.5 billion (CBO, p. 319)

### **E. Modify Service Contract Act by eliminating successorship provision and raising threshold**

The Service Contract Act of 1965 requires that private sector service employees working under federal contracts of more than \$2,500 be paid at the wage rates "prevailing" in the locality. The successor contract provision requires that wage rates established by a collective bargaining agreement must be considered the minimum rates for subsequent contracts in that locality. This rule limits competition by discouraging potential successors from bidding on contracts in which the existing provider has a collective bargaining agreement, unless they have similar agreements. The Congressional Budget Office estimates that eliminating the successorship provision would save \$750 million over five years. (CBO, p. 321) According to the Contract Services Association, raising the threshold to \$200,000 would save an additional \$750 million over five years.

## **Recommendations**

- (1) Drop the successor contract provision.
- (2) Raise the threshold from \$2,500 to \$200,000.

FY 91-95 Savings: \$1.5 billion

### **F. Franking Privileges**

Recent reforms limit to three the number of district-wide “postal patrons” mailings each Senator and Representative may send in a single year under the franking privilege. The intent was to curtail Congress’ practice of inundating constituents with thinly-disguised campaign literature at taxpayer expense. The reform will not work as advertised, however, because it does not limit the number of computer-targeted mass mailings (500 or more identical pieces).

House of Representatives Postmaster Robert Rota estimates that this year the House will send out 400 million pieces of franked mail — more than double the 156 million pieces it sent out in 1988, the last election year. More than 95% of franked mail funds are for mass mailings, with less than 5% being spent to answer direct constituent inquiries. The House is already \$40 million over budget for its franked mail this year.

### **Recommendation**

- (1) Limit the franking privilege to congressional mail used to answer direct constituent inquiries.

FY 91-95 Savings: \$450 million

### **G. Improve government contracting and contract administration**

Last year GAO examined 87 contracts valued at \$1.4 billion at the Departments of Education, Energy, HHS, and HUD. GAO found examples of just about every type of contract abuse or mismanagement. Specifically, GAO found that: (1) 16 of the contracts had planning or specifications deficiencies; (2) agencies’ use of cost-plus-fixed-fee contracts for 33 repetitive requirements was questionable; (3) agencies awarded 9 contracts before the contractors were ready to commence performance; (4) eight contracts had defective work statements, specifications, or clauses; (5) contract administration deficiencies in 50 contracts increased costs, delayed completion, or circumvented internal controls; (6) program offices hindered contractor performance on 27 contracts and exceeded their authority on 12 contracts, while contracting officers extended 10 contracts and modified 21 after their completion dates.

### **Recommendation**

- (1) Require the Administrator, Office of Federal Procurement Policy (OFPP), to work with agency heads to correct deficiencies in federal contracting.

Savings cannot be estimated because GAO did not calculate losses due to contract abuse and mismanagement in the four agencies studied. However, even a small

improvement in contract administration could result in significant savings, since the value of government contracts each year totals approximately \$170 billion.

**Total General Government Management: \$20.7 billion**

**6. INCOME SECURITY**

**A. Reduce floor on AFDC and Medicaid matching rate**

By law, the federal share of the costs of these programs can be no less than 50% and no more than 83%. The 50% floor applies to 13 jurisdictions in FY 1991, including California, Massachusetts, and New York. One result is that low- and middle-income states pay for a greater share of AFDC benefits and Medicaid costs relative to income than do high-income states. If the floor were reduced to just 48% for wealthier states, low- and middle-income states would pay a smaller share of costs.

**Recommendation**

- (1) Reduce the floor on the AFDC and Medicaid matching rate to 48% for higher-income states.

FY 91-95 Savings: \$7 billion (CBO, p. 147)

**B. Establish two-week waiting period for unemployment insurance (UI) benefits**

By making unemployment benefits available without delay, the UI system creates perverse incentives. Employers are encouraged to lay off workers, and employees are discouraged from finding new jobs immediately. Mandating a two-week waiting period before unemployment benefits begin would encourage the unemployed to find work by increasing the initial cost of joblessness. It would also cut UI outlays nearly 7%.

**Recommendation**

- (1) Impose a two-week waiting period before unemployed workers may receive benefits. The eligible unemployed would still collect 26 weeks of benefits.

FY 91-95 Savings: \$4.6 billion (CBO, p. 153)

**C. Reduce subsidy in child nutrition programs for children from higher income families**

Although most of the funds for child nutrition are targeted toward the children of low-income families, some of the aid goes to the children of middle- and upper-income families as well. An estimated 53% of the school lunches served in FY 1989 went to children whose family income was above 185% of the poverty line.

**Recommendation**

- (1) Eliminate cash reimbursements for all meals served in schools and child care centers to children from households with incomes above 185% of the poverty line.

FY 91-95 Savings: \$2.3 billion (CBO, p. 157)

#### **D. Restructure federal Supplemental Security Income (SSI) benefits**

Under current law, SSI recipients living with their eligible spouses are subject to a 25% reduction in their federal benefit rate. When SSI recipients live in the household of another person, their benefits may be reduced by as much as 33% depending on the extent of in-kind support and maintenance (ISM) they receive. Calculations of ISM benefit reductions are complex, time-consuming, and error prone.

##### **Recommendation**

- (1) Extend the 25% benefit reduction to all SSI recipients living with another person, and eliminate the ISM benefit reduction.

FY 91-95 Savings: \$1.4 billion (HHS OIG Semiannual Report, April-September, 1989, pp. 59-60)

#### **E. Mandate income tax refund offset for Social Security overpayments**

The HHS OIG has determined that withholding income tax refunds due former overpaid Social Security beneficiaries could result in recovery of approximately \$303.2 million over a 5-year period, with most of the recovery occurring in the first 2 years.

##### **Recommendation**

- (1) Withhold income tax refunds to offset overpayments of Social Security benefits.

FY 91-95 Savings: \$300 million (HHS OIG, p. 49)

**Total Income Security: \$15.6 billion**

### **7. BUDGET PROCESS**

#### **A. Grant the President enhanced rescission authority**

Under current law, the president has authority to propose that specific expenditures be cut or rescinded from an appropriations bill. However, either House of Congress can kill the president's rescission request simply by failing to act upon it. At present, if the President finds items in a major appropriations bill that he regards as not in the general interest, his only choice is between vetoing the entire bill or sending a rescission request that Congress is free to ignore. (*Budget of the United States Government*, FY 1991, p. 266) If Congress were obligated to vote on presidential rescission requests, far fewer "pork barrel" or special interest measures would be enacted (or even proposed).

##### **Recommendation**

- (1) Give the President a time frame to reduce or eliminate line items within appropriations bills. The President could also propose these cuts in his annual budget submission. Both the cuts and the budget would be subject to a joint resolution of disapproval by Congress, with the vote in each case on the entire package of cuts.

FY 91-95 Savings: \$10 billion

## **B. Establish two-year budget cycle**

Congress spends most of each year discussing the federal budget. Yet in the past 17 years, only once has Congress enacted all 13 regular appropriations bills before the beginning of a new fiscal year. Due to its annual preoccupation with the budget, Congress cannot devote sufficient time and attention to its oversight responsibilities. The president, for his part, has been faced repeatedly with the choice of shutting down the entire government or signing omnibus "continuing resolutions." This situation thwarts both presidential and congressional efforts to engage in long-range policy planning.

### **Recommendation**

- (1) Enact a biennial budget cycle requiring two-year appropriation bills, a strict timetable for budget resolution and appropriation bills, and increased time for oversight.

FY 91-95 Savings: \$5 billion

## **C. Strengthen Gramm-Rudman**

The Gramm-Rudman-Hollings law was enacted in 1985 to force Congress to adhere to a schedule for balancing the budget in five years. Key to the law is the sequestration process, which provides for automatic cuts in spending if the deficit reduction targets are not met. While Gramm-Rudman has not balanced the budget, it is the most effective means of fiscal restraint Congress has adopted to date.

Before Gramm-Rudman was enacted in 1985, the Congressional Budget Office projected rising deficits for the next 5 years reaching \$296 billion by 1990. Thanks to Gramm-Rudman, deficits have been cut by a combined \$484 billion below that projection, dropping from 5.4% of GNP to an estimated 2.6% of GNP for 1989. Equally important, federal spending as a share of GNP has declined from 23.9% to 21.8%.

Unfortunately, both Congress and the administration have taken advantage of loopholes in Gramm-Rudman to diminish the effectiveness of the Act. By shifting federal paydays and disbursements from one fiscal year to another, by declaring certain expenditures "off budget," by enacting additional expenditures after the October 15 sequester deadline, and by rescinding the sequestration of funds, the government has avoided the strict fiscal discipline intended by Gramm-Rudman. (Dan Mitchell, "Save The Gramm-Rudman Sequester," Heritage Backgrounder No. 763, April 3, 1990)

### **Recommendations**

- (1) Add a mid-year second sequester to prohibit Congress from increasing spending after the October 15 sequester deadline.
- (2) Require an extraordinary majority vote of three-fifths or two-thirds of each House of Congress to rescind an existing sequester.
- (3) Prohibit accounting tricks such as taking programs "off budget" or shifting paydays and disbursements from one fiscal year to another.

Savings cannot be estimated, because it is impossible to predict the extent to which officials will exploit the Gramm-Rudman loopholes in the absence of such reforms.

The following point is worth noting, however. Had the reforms proposed above been adopted last year, the government would have met the FY 1990 Gramm-Rudman deficit target of \$100 billion, reducing the deficit by an additional \$23.8 billion in FY 1990 and saving \$201 billion during FYs 1990-1994.

**Total Budget Process: \$15.0 billion**

## 8. ENERGY AND SCIENCE

### A. Sell electric power generated from federal dams through auctions

The federal government generates electricity at 127 dams under the control of five regional Power Marketing Administrations (PMAs). The power from these dams accounts for 6% of the nation's electricity supply.

With few exceptions, the government has not revised its pricing policies since the 1930s, when many of these dams were built. Hoover Dam, for example, sells power for one cent per kilowatt-hour (KWH), even though commercial electric rates in the Hoover area are between four and eight cents per KWH. The federal government charges "preferred" customers about \$2.5 billion per year for power regulated by the PMAs. If the government allowed private utility companies to bid for the electricity, the Treasury could collect more than \$4 billion a year. (Heritage, pp. 35-36)

#### Recommendation

- (1) Begin selling electric power generated from federal dams at market prices set through auctions. Repeal prohibitions restricting competition for this power.

FY 91-95 Savings: \$7.5 billion

### B. Require private sector cost sharing of federal energy research with commercial applications

The Department of Energy (DOE) spends about \$2.1 billion annually to fund energy research and development projects. While many of these projects produce general benefits for the U.S. economy, the prime beneficiary is the energy industry. In some cases, moreover, taxpayers have realized little or no return on their investment.

For example, the Synthetic Fuels Corporation — originally a ten-year, \$20 billion project — was terminated in 1987 as uneconomical, after it had spent over \$1.2 billion in direct assistance and had lost another \$1.5 billion in loan defaults. Such inefficiencies are inevitable as long as federal research is insulated from market incentives that lead private sector firms to concentrate on commercially promising areas of research.

To reduce waste and remove the unfair burden on taxpayers, each DOE-supported R&D project should be subject to a market test: the willingness of industry to pay half the cost. This test would ensure that federally-assisted energy research is likely to have significant commercial potential, and that the chief beneficiaries of such research pay their fair share of the cost. (Heritage, p. 39)

### **Recommendation**

- (1) Impose a 50% industry cost-sharing charge before launching new research projects to benefit a particular industry.

FY 91-95 Savings: \$5 billion

### **C. Reduce subsidies provided by Rural Electrification Administration**

The Rural Electrification Administration (REA) was created during the Depression to provide electricity to America's farmers. In 1949, the REA began providing rural areas with telephone service as well. Today, over 99% of all farms have electricity and 96% have telephone service. REA's mission has been accomplished. Yet it continues to disburse \$2 billion in taxpayer subsidized loans each year to rural electric and telephone cooperatives. Approximately 75 recipients of REA loans are subsidiaries of major telephone holding companies, and most do not serve low density rural areas. (Heritage, pp. 39-40)

### **Recommendation**

- (1) Increase REA's interest rate to equal the Treasury rate. Decrease the levels of REA direct loan obligations by about 50%, and charge a 1% fee on new loan guarantees.

FY 91-95 Savings: \$1.5 billion (CBO, p. 229)

### **D. Suspend construction of Superconducting Super Collider for two years**

The Superconducting Super Collider (SSC) is the latest generation of particle accelerators designed to investigate the nature of matter through sub-atomic particle research. DOE's review panel found that the superconducting magnets could not provide the necessary power to ensure that the SSC would function as intended. The panel called for a strong magnet R&D effort, including consideration of design changes that would probably lead to a 2-year delay in production. The follow-up panel is recommending design changes that could add more than \$1 billion to project costs. CBO estimates the SSC will cost \$270 million annually to operate — one-third of DOE's total funds for general science.

### **Recommendation**

- (1) Suspend construction of SSC for two years, while a strong magnet R&D effort is mounted.

FY 91-95 Savings: \$680 million (CBO, p. 226)

**Total Energy & Science: \$14.7 billion**

## 9. AGRICULTURE

### A. Establish means-test for eligibility to receive federal farm support

Since 1981, the federal government has spent \$160 billion on agricultural subsidy programs, which translates to more than \$2,500 in taxes for the average American household. These programs also cost American consumers an estimated \$5-10 billion a year in higher food prices.

Farm subsidies distort market incentives. Of the more than 400 farm commodities, approximately a dozen are subsidized. As a result, many farmers are deterred from shifting production to other crops that are in short supply.

Farm subsidies diminish the productivity of U.S. agriculture and related industries. Price supports and commodity payments encourage farmers to produce larger yields than can be sold at government-set "target prices." Then, to prevent the market from being glutted, the government pays farmers to "retire" portions of their land — about 61 million acres in 1988. This deliberate idling of U.S. resources in 1987 cost industries that supply or service the farm sector about 300,000 potential jobs and \$4 billion in potential revenues.

Farm subsidies are not only costly, but also inequitable. About two-thirds of all agricultural subsidy payments are to farmers with annual sales revenue of more than \$1 million, or the top 15% of all farms. Less than one-tenth of subsidy payments go to farmers with sales under \$40,000, or the least profitable 70% of all farms. An adequate welfare program for needy farmers would probably cost no more than \$4 billion a year — about one-third the cost of current farm support. (Heritage, pp. 60-62; Rep. Richard Armev, (R-TX), "Moscow on the Mississippi," *Policy Review*, Winter 1990)

The irrationality of current farm spending is compounded by a widespread practice known as "double-dipping." Many of the same farmers who are paid not to grow crops also receive irrigation subsidies intended to boost production. The federal government spends over \$800 million annually to subsidize irrigation systems for farmers participating in federal commodity support programs.

### Recommendations

- (1) Restrict farm payments to farmers with adjusted gross income under \$100,000 and farms with adjusted gross revenues under \$500,000. (OMB estimates this one reform would save \$1 billion per year. *Budget of the United States Government*, FY 1991, p. 204)
- (2) Negotiate an international agreement eliminating all barriers to agricultural trade and non-means-tested farm support.
- (3) Eliminate irrigation subsidies for farmers who also receive commodity support payments.

FY 91-95 Savings: \$9 billion

### B. Cut program costs for dairy price supports by requiring producer contributions

The federal government supports the dairy industry by purchasing storable dairy products, through marketing orders that set price minimums, and through quotas on imports. Costs of the dairy program to the taxpayer are substantial: about \$1.7 billion per year during FYs 1981-1989.

Although needy families, schools, and other institutions gain through the free distribution of dairy products purchased by the USDA, the prime beneficiary is the dairy industry. Dairy farmers should pay half the cost of federal programs that stabilize and increase their incomes.

#### **Recommendation**

- (1) Require producer contributions at the \$0.20 per hundredweight level.

FY 91-95 Savings: \$1.7 billion (CBO, p. 206)

#### **C. Place Federal Crop Insurance program on an actuarially sound basis.**

The Federal Crop Insurance Corporation (FCIC) is not actuarially sound. Premiums paid by farmers do not cover the cost of the insurance offered. During FYs 1980 to 1988, indemnities exceeded premiums by more than 50%.

#### **Recommendation**

- (1) Phase out the premium subsidy by requiring participants in commodity programs to purchase coverage.

FY 91-95 Savings: \$1.6 billion (CBO, p. 210)

#### **D. Scale back Agricultural Extension Service**

The Country Cooperative Extension Program was established in 1914, when 35% of Americans lived on farms. Though only 2.2% now reside on farms, the system still operates in every county in the nation. The Extension Service's original mission was to instruct farmers in emerging technologies; today, only an estimated 40% of its budget directly assists farmers. The program now educates urban as well as rural America in such non-farm skills as home economics, urban gardening, sewing and gourmet cooking. (Heritage, p. 67)

#### **Recommendation**

- (1) Cut back the Extension Service's budget by 50%.

FY 91-95 Savings: \$800 million

**Total Agriculture: \$13.1 billion**

## **10. FINANCIAL MANAGEMENT**

### **A. Establish chief financial officer**

In November 1989, the General Accounting Office reported that 17 major federal agencies had "material weaknesses" in financial management and internal control systems that "cost taxpayers billions of dollars" every year. (GAO/AFMD-90-10) In December, the Office of Management and Budget released a "high risk list" of 100 programs in danger of becoming financial disasters similar to those at the Department of Housing and Urban Development in 1989. Major reforms are needed to guarantee proper management and accounting of federal assets and expenditures.

## **Recommendations**

- (1) Establish a chief financial officer (CFO) for the United States, responsible for organizing and coordinating the overall financial management of the federal government, supported by counterpart CFO's in each major agency.
- (2) Establish a uniform accounting system and reporting practices throughout the federal government.
- (3) Require annual financial statements and independent audits for the executive branch as well as for each individual department and agency.

FY 91-95 Savings: \$5 billion

### **B. Reform deposit insurance, and strengthen internal controls in thrift industry**

The main culprit in the S&L crisis is the deposit insurance system. Deposit insurance has allowed poorly run thrift institutions to remain open months and even years after they became insolvent, increasing the final cost of closing failed thrifts by tens of billions of dollars. Furthermore, deposit insurance encourages depositors to ignore bank management quality and invest in banks offering the highest interest rates. Not surprisingly, during the 1980s the fastest growing thrifts were the insolvent ones. From 1981 to 1988, gross assets of insolvent thrifts grew 1,012%, compared to only 69% for solvent thrifts!

In an April 1989 report on the thrift industry, GAO stated that: (1) almost all failed thrifts changed from traditional home mortgage lending to higher-risk activities; (2) thrift violations of laws included inaccurate appraisals for real estate investments, excessive loans for single borrowers, business with prohibited persons or insiders, and inadequate assessments of borrowers' ability to repay loans. (GAO/AMFD-89-62) The GAO's recommendations for strengthening thrift industry internal controls were approved by the House Banking Committee but dropped in the House-Senate Conference Committee under heavy lobbying pressure.

## **Recommendations**

- (1) Limit deposit insurance to \$10,000 per depositor rather than \$100,000 per deposit. This would encourage prudent investment decisions on the part of both large depositors and thrift managers, while maintaining insurance protection for small depositors.
- (2) As a condition for receiving deposit insurance, require each insured thrift to prepare a report describing management's efforts to establish and maintain an effective internal control regime.
- (3) As a condition for receiving deposit insurance, require each insured thrift to obtain an annual independent audit.

FY 91-95 Savings: \$5 billion

### **C. Strengthen internal control and bank management**

In a May 1989 report on the banking industry, GAO stated that internal control weaknesses contributed to 184 bank failures in 1987. These included inadequate or imprudent loan policies and

procedures, inadequate bank board supervision, poor loan documentation, and inadequate credit analysis. Federal regulators did not generally require all insured banks to have an annual independent audit. The Federal Deposit Insurance Company's (FDIC) disbursements related to the 184 closed banks were \$4.4 billion, with an expected net cost of \$1.8 billion. (GAO/AFMD-89-25)

### **Recommendations**

- (1) As a condition for federal deposit insurance, require each insured bank to prepare an annual report which describes management's efforts to establish and maintain an effective internal control regime.
- (2) As a condition for federal deposit insurance, require each insured bank to obtain an annual independent audit.

FY 91-95 Savings: \$1 billion

#### **D. Establish risk-related premiums for the banking insurance funds.**

Under the premium structure of the federal deposit insurance agencies, a uniform rate per dollar is applied by the funds administrator to total deposits in each institution. The premium rates have been established by Congress and are not based on loss probabilities or the needs of the agencies for self-sustaining operations.

Under this system, a financial institution's premium will not rise if it increases the risk of its activities, so an incentive exists to do just that. This was a major factor in the growth of the savings and loan crisis and the resulting bail-out now under way. The failed S&Ls had every reason and a blank check to undertake risky activities and minimize their capital. They bought junk bonds, made bad real estate investments and paid the same insurance premium as sound, prudent financial institutions. A variable rate premium system would give insurance authorities more flexibility in enforcing banking laws.

### **Recommendation**

- (1) Establish a variable-risk premium structure for all financial institutions whose deposits are insured by the federal government.

While savings cannot be determined, such a system would deter financial institutions from undertaking high-risk activities and jeopardizing the corresponding insurance fund, preventing future multi-million dollar financial institution bailouts. (Grace Commission Report on Boards/Commissions-Banking, pp. 211-214).

**Total Financial Management: \$11.0 billion**

## 11. COMMERCE AND HOUSING CREDIT

### A. Place Federal Housing Administration (FHA) home mortgage loans on an actuarially sound basis

The FHA controls about 55% of the mortgage insurance market, about twice the market share it commanded in the early 1980s. This poses serious financial risks to American taxpayers for two reasons.

First, the FHA is not actuarially sound. The agency does not hold capital reserves equal to 4% of contingent liability — the reserve standard required of private mortgage insurers. Nor does the FHA require borrowers to make down payments of at least 5% — the legal minimum for mortgage loans insured by private institutions. (Heritage, p. 72)

Second, the FHA has been plagued by serious financial mismanagement. From 1975 until recently, the GAO was not able to conduct the full financial statement audits required by law because of accounting and internal control deficiencies at FHA. An audit, conducted by Price Waterhouse for GAO, published in September 1989, shows that during fiscal 1988 alone, the FHA lost a total of \$4.2 billion. Losses were due to mismanagement, carelessness in accepting guarantee obligations, and outright fraud. (Rep. Charles E. Schumer (D-NY), House of Representatives Budget Committee Task Force on Urgent Fiscal Issues, September 28, 1989)

#### Recommendations

- (1) Require FHA to build reserves of 4% of contingent liability.
- (2) Require a minimum downpayment of 5% of the mortgage amount from homebuyers obtaining FHA insurance.
- (3) Impose on lenders a 5% coinsurance requirement on all FHA-insured loans (5% of the losses on a defaulted FHA loan would be borne by the lender).
- (4) Discontinue FHA mortgage insurance for purchasers of second homes and investor properties.

FY 91-95 Savings: \$4 billion

### B. Place user fee on home mortgages sold to or guaranteed by “Fannie Mae” and “Freddie Mac”

Although securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) are not formally insured by the Treasury, Wall Street investors act on the assumption that the U.S. government would never allow these institutions to fail. Therefore, investors accept a lower interest rate for FNMA and FHLMC debt and mortgage securities than for the equal-risk debt and securities of private mortgage companies.

Not surprisingly, competition from FNMA and FHLMC has reduced the profit margins of the troubled thrift industry, aggravating the S&L crisis. Thrifts must pay an annual insurance fee of 0.21% to the FSLIC, while FNMA/FHLMC pay no comparable fee.

Imposing a small user charge on FNMA and FHLMC securities would compensate the Treasury for the effective guarantee it provides, and restore some balance to the competition between the federal mortgage institutions and the private mortgage companies. (Heritage, pp. 68-70)

#### **Recommendation**

- (1) Place a user fee of 0.25 percentage points on all mortgages sold to or guaranteed by the FNMA and the FHLMC. (This is equal to about half the value that Wall Street investors place on the implicit federal guarantee extended to FNMA/FHLMC.)

FY 91-95 Savings: \$2.5 billion

#### **C. Reform rural housing loan program**

The Farmers Home Administration (FmHA) provides below-market rate loans for housing low-income families in rural areas. When the GAO audited the FmHA's financial statements last year, it discovered that FmHA loan programs lost \$13.8 billion in FY 1988, and that FmHA's accumulated deficit now stands at \$42.6 billion. In 1988, delinquent loan balances were \$12.5 billion, or 49% of FmHA's farm loan portfolio. (GAO/AFMD-90-37) The data reveal that FmHA, although nominally a lending agency, has to a large degree become a grant program. While better accounting procedures and information management systems will improve efficiency, only a fundamental reform of FmHA programs can prevent new multi-billion losses every year.

#### **Recommendations**

- (1) Convert rural housing loans into grants, and provide grant assistance in the form of housing vouchers — an income supplement that must be used to defray a family's housing costs.
- (2) Sell off the FmHA inventory of foreclosed properties at 75% of its value.
- (3) Foreclose on three-year old delinquent debts and sell collateral at 49 cents on the dollar. (Heritage, pp. 95-96)

FY 91-95 Savings: \$2 billion

#### **D. End Small Business Administration loans and guarantees**

The SBA provides both direct loans and loan guarantees to small businesses. To be eligible for SBA assistance, a firm must have had a loan application rejected by two commercial banks. Thus, SBA loans go to firms that the marketplace deems likely to fail.

SBA loans and guarantees should be terminated for the following reasons. First, SBA assistance tends to flow to the firms least likely to create stable employment, improve technology, or enhance national productivity. (CBO, p. 259) Second, the SBA loses about 11-12% annually on the \$3 billion of loan guarantees it issues, and has a default rate of close to 20% on direct loans — about ten times higher than the rate on private sector loans. (Heritage, p. 76) Third, financial markets are more efficient and less susceptible to the types of market failure that justified the SBA program when it first began. (CBO, p. 259)

### **Recommendation**

- (1) Eliminate SBA loan and guarantee programs.

FY 91-95 Savings: \$1.9 billion (CBO, p. 258)

- E. **Raise fee on Government National Mortgage Association (GNMA), or "Ginnie Mae," loan guarantees**

GNMA extends "full faith and credit" federal government guarantees to pools of home mortgages already insured by the Federal Housing Administration (FHA) and the Department of Veterans Affairs (DVA). In 1938, GNMA issued about \$50 billion in federally insured mortgage-backed securities (MBSs). GNMA runs annual losses of about \$700 million per year. GNMA's guarantee fee should be increased to compensate the government fully for the risk of insuring FHA and DVA loans. (Heritage, pp. 70-71)

### **Recommendation**

- (1) Retain the 6 basis point (0.06%) guarantee fee on FHA/DVA mortgages of less than \$50,000; raise the fee to 10 basis points on mortgages between \$50,000 and \$80,000; and raise the fee to 20 basis points on mortgages over \$90,000.

FY 91-95 Savings: \$500 million

**Total Commerce/Housing Credit: \$10.9 billion**

## **12. NATURAL RESOURCES AND ENVIRONMENT**

- A. **Eliminate federal grants for construction of wastewater treatment plants**

The Environmental Protection Agency (EPA) wastewater plant construction grants under the Clean Water Act will end after 1990. However, under the Water Quality Act of 1987, the EPA also provides "capitalization" grants to support loans to state revolving funds (SRF). For every 20 cents the states contribute to the SRF, the federal government contributes 80 cents — about \$2 billion per year. Although federal support was supposed to encourage local efforts, studies indicate that state and local governments reduce their own wastewater treatment expenditures by 40-70 cents for every federal dollar they receive. Prospects of receiving grants have prompted some communities to wait until federal assistance was available rather than act promptly to correct known pollution problems. Federal support has also reduced incentives for local governments to find less capital-intensive alternatives for controlling water pollution.

### **Recommendation**

- (1) Terminate federal support for construction of wastewater treatment plants.

FY 91-95 Savings: \$5.2 billion (CBO, p. 245)

## **B. Improve pricing for commercial and recreational uses of public lands**

*Recreation fees.* Entrance and user fees at national parks and recreation areas cover only a small portion of the direct costs of providing visitor and recreational services. In 1990, the National Park Service will spend \$190 million on visitor services and will recover only \$56 million in fees.

### **Recommendation**

- (1) Raise fees to cover the direct costs of visitor and recreational services on National Park Service land.

FY 91-95 Savings: \$800 million (CBO, p. 237)

*Mining claims.* Under the Mining Law of 1872, the discovery of a valuable mineral deposit and the staking of a mining claim give a prospector the right to mine and sell public domain minerals without paying any fees or royalties except a \$100 annual "diligence" fee.

### **Recommendation**

- (2) Raise "diligence" fee from \$100 to \$1000 (roughly the equivalent of the requirement imposed in 1872).

FY 91-95 Savings: \$300 million (CBO, p. 237)

*Timber sales.* The Forest Service manages timber sales from 119 national forests in the National Forest System (NFS). In three of nine NFS regions (Rocky Mountain, Northeastern, and Intermountain), the Forest Service's annual cash expenditures exceed annual cash receipts from federal timber sales by a ratio of 3 to 1. Below-cost sales from these areas increase the deficit, deplete timber resources through uneconomic timber harvests, and interfere with private timber markets.

### **Recommendation**

- (3) Eliminate timber sales from the below-cost regions.

FY 91-95 Savings: \$220 million (CBO, p. 241)

*Grazing fees.* The Forest Service (FS) and the Bureau of Land Management (BLM) administer livestock grazing on approximately 307 million acres of public rangelands. These lands can provide rangers with over 21 million animal unit months (AUM) of grazing each year. The BLM and FS spend, on average, \$2.50 per AUM to manage these rangelands. In contrast, the 1989 permit fee was \$1.86 per AUM. This represents a large subsidy to a relatively small group of ranchers.

### **Recommendation**

- (4) Adjust grazing fee to reflect the fair market value of rangelands.

FY 91-95 Savings: \$100 million (CBO, p. 237)

**Total: \$1.4 billion**

**C. Change revenue sharing formula from gross to net receipt basis for commercial activity on federal lands**

The federal government owns over 700 million acres of public lands — nearly one-third of total U.S. land. Private interests are allowed to develop resources found on much of this land and, in general, pay fees to the federal government based on the commercial returns from this activity. In many cases, the federal government allots a percentage of these receipts to the states and counties in which the resources are found as compensation for lost tax revenues from the federal lands in their boundaries. Such allotments are based on gross receipts — that is, on receipts not including federal program costs. This policy places an unjustified burden on federal taxpayers and may encourage overuse of national resources.

**Recommendation**

- (1) Base revenue sharing formula on net rather than gross receipts.

FY 91-95 Savings: \$1.2 billion (CBO, p. 236)

**D. Scale back subsidized road building for private timber companies**

The Forest Service has built over 342,000 miles of roads, or eight times the mileage of the Interstate Highway system. The FS projects that during the next half century it will build another 260,000 miles of new roads and reconstruct 319,000 miles of existing roads. The \$200 million a year it spends on road construction and maintenance constitutes a direct subsidy to private timber companies. By encouraging logging in uneconomic areas, FS road building activities have damaged environmentally sensitive tracts of land such as the Tongass Forest in Alaska. (Heritage, pp. 49-50)

**Recommendation**

- (1) Cut FS subsidized roadbuilding by 50%.

FY 91-95 Savings: \$500 million

**F. Certify private environmental auditors/inspectors**

The Environmental Protection Agency (EPA) spends more than \$600 million annually to monitor industry compliance with pollution control and environmental standards. This function could be performed by the private sector. Certified Public Accountants attest to the accuracy of the financial statements of private firms and certify whether proper accounting practices were followed in developing and reporting financial data. By the same token, private environmental auditors could verify on-site pollution levels for the EPA. This would remove from the EPA the onerous task of performing thousands of routine plant inspections and allow it to devote more resources to the investigation and prosecution of major polluters. (Heritage, p. 53)

**Recommendation**

- (1) Use EPA-certified auditors to examine company procedures and records to verify compliance with EPA standards.

FY 91-95 Savings: \$300 million

**F. Raise user fees for commercial fishermen who fish in federal waters**

The National Marine Fisheries Service, a bureau of the National Oceanic and Atmospheric Administration (NOAA) of the Department of Commerce, spends more than \$100 million a year supporting fishing and conserving fish resources in federal waters. It is reasonable to expect fishermen to contribute more to this cost. NOAA has endorsed the imposition of higher licensing fees. (Heritage, p. 57)

**Recommendation**

- (1) Charge commercial fishermen \$100 annually for the right to fish in federal waters.

FY 91-95 Savings: \$200 million

**Total National Resources and Environment: \$8.8 billion**

**13. COMMUNITY AND REGIONAL DEVELOPMENT**

**A. Scale back Low-Income Home Energy Assistance Program (LIHEAP)**

LIHEAP provides about \$1.5 billion annually in block grants to subsidize the energy costs of low-income households. The program was created in response to the rapid increases in home energy prices that took place during 1972-1980. Since then, the real costs of many types of energy have returned to the levels of the early 1970s.

**Recommendation**

- (1) Reduce LIHEAP expenditures by 50%.

FY 91-95 Savings: \$3.9 billion (CBO, p. 310)

**B. Restrict Community Development Block Grants (CDBGs)**

The CDBG program was instituted to raise the living standards and expand the economic opportunities of low income groups. Approximately 70% of the \$2.9 billion appropriated for this program in FY 1990 is disbursed on an entitlement basis directly to cities, while the remaining funds are given to states to distribute at their discretion. Although CDBG money is supposed to be targeted to the nation's neediest urban communities, Congressional politics has allowed a growing number of affluent cities to obtain CDBG money. Seven of ten counties that had the highest per capita income in the nation in 1985 currently receive funds under the CDBG entitlement component.

**Recommendation**

- (1) Cut the entitlement component 20% by eliminating funds for the least needy jurisdictions.

FY 91-95 Savings: \$1.5 billion (CBO, p. 281)

### **C. Shift housing assistance from new construction to vouchers**

The Department of Housing and Urban Development (HUD) provides two kinds of housing assistance: grants for the construction of low-rent public housing facilities; and subsidies that allow lower-income households to choose among existing rental units in the private housing market. The chief housing problem today is the inability of poor people to pay the rents of existing housing, rather than a shortage of rental units. For example, nationwide rental vacancy rates have consistently been over 7% since 1986. Rather than subsidize new public housing construction, the federal government should provide housing vouchers to poor households. Vouchers provide housing assistance more quickly and at a lower cost than new construction, and they give poor households a wider choice of where to live.

#### **Recommendation**

- (1) Shift housing assistance from new construction to vouchers.

FY 91-95 Savings: \$1 billion (CBO, p. 303)

**Total Community Development: \$6.4 billion**

## **14. EDUCATION AND TRAINING**

### **A. Reduce payments for indirect costs of patient care related to hospital teaching programs**

Medicare pays higher rates to hospitals with teaching programs to cover their additional costs of caring for Medicare patients. Payments to these hospitals are raised by approximately 7.7% for each 0.1% increase in the hospital's ratio of full-time equivalent interns and residents to its number of beds. Cost data from the 1984-1987 period suggest that the teaching adjustment could be lowered to a value in the range of 3% to 7%.

#### **Recommendation**

- (1) Reduce the teaching adjustment to 6%.

FY 91-95 Savings: \$3.2 billion (CBO, p. 125)

### **B. Require postsecondary institutions to share financial risk of defaults on Stafford Loans**

In recent years the volume of defaulted loans in the Stafford Student Loan Program has grown. In 1989, default payments net of collections equaled \$1.4 billion, about 30% of the total cost of the program. Currently, lenders do not directly share the risk of defaults since they are fully reimbursed if they follow "due diligence" in seeking repayment. Postsecondary institutions bear almost no direct financial risk for loan defaults.

### **Recommendation**

- (1) Require postsecondary institutions to pay a sliding loan default fee. Institutions with fiscal year default rates above 30% would pay a fee set at 15% of the amount of loans on which students default that year, while those with default rates between 10% and 30% would pay a 10% fee. Those with default rates below 10% would pay nothing.

FY 91-95 Savings: \$1.1 billion (CBO, p. 113)

**Total Education and Training: \$4.3 billion**

**GRAND TOTAL FOR FYs 1991-1995: \$304.8 billion**

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